As filed with the Securities and Exchange Commission on August 17, 2001

Registration No. 333-56026

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

AMENDMENT NO. 1

TO

FORM S-1

REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

SYNAPTICS INCORPORATED

(Exact Name of Registrant as Specified in its Charter)

California (prior to reincorporation) Delaware (after reincorporation)	3679	77-0118518
(State or Other Jurisdiction of Incorporation or Organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification Number)

2381 Bering Drive

San Jose, California 95131
(408) 434-0110

(Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant's Principal Executive Offices)

Francis F. Lee

President and Chief Executive Officer
Synaptics Incorporated
2381 Bering Drive
San Jose, California 95131
(408) 434-0110

(Name, Address Including Zip Code, and Telephone Number, Including Area Code, of Agent for Service)

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Approximate date of proposed sale to the public: As soon as practicable after the effective date of this Registration Statement.

If any of the securities being registered in this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. ☐

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐ _____

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐ _____

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐ _____

If delivery of the prospectus is expected to be made pursuant to Rule 434, check the following box. ☐

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered(1)	Proposed Maximum Aggregate Offering Price Per Share(2)	Proposed Maximum Aggregate Offering Price(2)	Amount of Registration Fee(3)
Common stock, par value $.001	5,750,000	$12.00	$60,000,000	$17,250

(1) Includes 750,000 shares of common stock that the underwriters have the option to purchase from the selling stockholders to cover over-allotments, if any.

(2) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(o) under the Securities Act of 1933.

(3) A filing fee in the amount of $12,500 was previously paid in connection with the filing of the Registration Statement.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

The information in this preliminary prospectus is not complete and may be changed without notice. Synaptics may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This preliminary prospectus is not an offer to sell these securities, and Synaptics is not soliciting offers to buy these securities, in any jurisdiction where the offer or sale of these securities is not permitted.

TABLE OF CONTENTS

SUBJECT TO COMPLETION, DATED AUGUST 17, 2001

PROSPECTUS

5,000,000 Shares

Common Stock

This is the initial public offering of Synaptics Incorporated. We are selling 5,000,000 shares of our common stock.

There is currently no public market for our shares. We anticipate that the initial public offering price will be between $10.00 and $12.00 per share. We have applied to have our common stock approved for listing on the Nasdaq National Market under the symbol "SYNA."

See "Risk Factors" beginning on page 7 to read about certain risks that you should consider before buying shares of our common stock.

Neither the Securities and Exchange Commission nor any other regulatory body has approved or disapproved these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

	Per Share	Total
Public offering price	$	$
Underwriting discount	$	$
Proceeds, before expenses, to us	$	$

The underwriters may purchase up to an additional 750,000 shares of common stock from selling stockholders at the initial public offering price less the underwriting discount to cover over-allotments.

The underwriters expect to deliver the shares against payment in New York, New York on , 2001.

Bear, Stearns & Co. Inc.

Banc of America Securities LLC

SG Cowen

ABN AMRO Rothschild LLC

The date of this prospectus is , 2001

(inside front cover)

The top of the page has the Synaptics logo on the left side and to the right of the logo, the words, in quotations, “enriching the interaction between humans and intelligent devices.”

Directly below the header is a centered grouping of an image and text. The text reads “TouchPad(TM)” with a line underneath and below that line are the words “Synaptics capacitive TouchPad provides our customers with an easy to use, intuitive interface solution. The TouchPad allows screen navigation and interactive input between the user and the device.” To the left of the text is an image of a person's finger using a TouchPad.

Directly below this is another centered grouping of an image and text. The text reads “TouchStyk(TM)” with a line underneath and below that line are the words “The TouchStyk pointing stick is a capacitive, self-contained, and modular interface solution. Synaptics TouchStyk has three-dimensional capabilities that allow for advanced features such as tap to select and tab and drag.” To the right of the text is an image of a person's finger using a TouchStyk.

Directly below this is another centered grouping of an image and text. The text reads “ClearPad(TM)” with a line underneath and below that line are the words “ClearPad is a flexible, clear, and thin sensor that can be placed over any viewable surface, including display devices, such as LCDs. ClearPad enables visual information display in conjunction with touch commands.” To the left of the text is an image of a person holding a ClearPad between a finger and thumb.

Directly below this is another centered grouping of an image and text. The text reads “Dual Pointing” with a line underneath and below that line are the words “Synaptics dual pointing solutions allow OEMs to integrate both a pointing stick and a touch pad into a single notebook computer. Synaptics offers two dual pointing solutions, allowing OEMs to combine either a third party resistive pointing stick or Synaptics capacitive TouchStyk with a Synaptics TouchPad.” To the right of the text is an image of a keyboard with a touch pad and a pointing stick.

Directly below this, at the bottom of the page, is another centered grouping of an image and text. The text reads “QuickStroke(R)” with a line underneath and below that line are the words “QuickStroke Chinese handwriting recognition software is driven by Synaptics' incremental recognition engine. QuickStroke recognizes handwritten, partially finished Chinese characters, and is available for the PC and embedded handheld environment.” To the left of the text are images of the company logo and two Chinese characters below the logo that denote QuickStroke and a screen shot from the QuickStroke program.

PROSPECTUS SUMMARY

This summary highlights information contained elsewhere in this prospectus. This summary does not contain all the information that you should consider before investing in our common stock. You should read this entire prospectus carefully, especially “Risk Factors” and our consolidated financial statements and related notes.

Our Business

We are the leading worldwide developer and supplier of custom-designed user interface solutions for notebook computers. In fiscal 2001, we supplied approximately 61% of the touch pads used in notebook computers throughout the world. Our new pointing stick is designed to address the portion of the notebook market that uses the pointing stick rather than the touch pad as the interface solution. We estimate that approximately 55% of notebook computers use solely a touch pad interface, 29% use solely a pointing stick interface, 10% use a dual pointing interface, which consists of both a touch pad and a pointing stick, and 6% use some other type of interface. Our new pointing stick can be used with our touch pad to take advantage of the growing trend to dual pointing interface solutions. Our original equipment manufacturer, or OEM, customers include Acer, Apple, Compaq, Dell, Gateway, Hewlett-Packard, Intel, Samsung, and Sharp.

Our TouchPad(TM) is a small, touch-sensitive pad that senses the position of a person’s finger on its surface to provide screen navigation, cursor movement, and a platform for interactive input. Our TouchPads offer various advanced features, such as virtual scrolling; customizable tap zones to simulate mouse clicks, launch applications, or perform other select functions; Palm Check to eliminate false activation; and Edge Motion to continue cursor movement when the user’s finger reaches the edge of the touch pad. Our TouchPads are custom designed to meet our OEM customers’ specifications regarding electrical interface, size, thickness, functionality, and driver software for various advanced features. We have added stylus capabilities to our TouchPad to allow pen based applications, such as drawing, signature capture, and handwriting recognition, without sacrificing the accurate, comfortable finger input capabilities of the TouchPad. TouchStyk(TM), our recently introduced pointing stick solution, enables computer manufacturers to offer end users the choice of a touch pad, a pointing stick, or a combination of both interface devices. TouchStyk is a self-contained, easily integrated module that uses the same sensing technology as our TouchPad. Our QuickStroke® provides a fast, easy, and accurate way to input Chinese characters and has the potential to become a primary interface for the Chinese language market. Using our proprietary pattern recognition technology that combines our patented software with our TouchPad, QuickStroke can recognize handwritten, partially finished Chinese characters, thereby saving considerable time and effort.

We believe our extensive intellectual property portfolio, our experience in providing interface solutions to major OEMs, and our proven track record of growth in our expanding core notebook computer business position us to be a key technological enabler for multiple applications in many fast-growing markets. Based on these strengths, we are addressing the opportunities created by the growth of a new class of mobile computing and communications devices, which we call information appliances or “iAppliances.” These iAppliances include personal digital assistants, or PDAs, and smart phones as well as a variety of mobile, handheld, wireless, and Internet devices. We believe our existing technologies, our new product solutions, and our emphasis on ease of use, small size, low power consumption, advanced functionality, durability, and reliability will enable us to penetrate the markets for iAppliances. We have not yet, however, penetrated these markets in a manner that has resulted in significant revenue to us.

Our user interface solutions for the evolving iAppliance markets include ClearPad(TM) and Spiral(TM) in addition to our TouchPad. Our ClearPad touch screen solution is a thin sensor that can be placed over any surface, including display devices, such as liquid crystal displays, or LCDs. The ClearPad is a lightweight, low power consumption solution, and its flexible design allows it to be mounted on curved surfaces. ClearPad is an extension of our capacitive TouchPad technologies. Unlike standard resistive touch screens, ClearPad eliminates the need for an internal air gap, which causes internal reflections and their associated

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adverse impact on display quality. This performance advantage makes ClearPad an excellent solution for devices with color displays or for use

outdoors. Our Spiral is a thin, lightweight, low power consumption, inductive pen-sensing system. The Spiral sensor lies behind an LCD screen, effectively permitting 100% light transmissivity and lower overall power consumption resulting from reduced backlighting requirements. Spiral uses a patented inductive coupling technology that offers the unique feature of proximity sensing to measure the position of the pen relative to the pen-based device.

We have demonstrated ClearPad at trade shows for the notebook computer market and are providing samples to a customer in anticipation of the shipment of units for production in the December 2001 quarter. We are currently supplying iAppliance OEMs with TouchPads. We also plan to introduce ClearPad and Spiral solutions for the iAppliance markets. ClearPad is available in prototype for design into iAppliances. Spiral is in development, and we expect to have prototypes in the December 2001 quarter. We have devoted considerable resources to our iAppliance efforts. In the second quarter of fiscal 2000, we acquired for $3.1 million Absolute Sensors Limited, which initiated the development of the inductive pen-sensing technology behind Spiral. Apart from this acquisition, we expended approximately $2.5 million and $4.8 million in fiscal 2000 and fiscal 2001 for research and development relating to Spiral and other technologies associated with the iAppliance markets, which represents approximately 30% and 41% of our total research and development expenditures during those fiscal years. There can be no assurance that our user interface solutions for the iAppliance markets will be successful or will result in meaningful revenue to us. The failure to succeed in these markets would result in no return on the substantial investments we have made to date and plan to make in the future to penetrate these markets.

Our Opportunity

We believe our company is well positioned to benefit from the continuing growth in the notebook computer market as well as the growth that is occurring in the iAppliance markets.

Technological Leadership. We have developed and own an extensive array of application specific integrated circuit, or ASIC, firmware, software, pattern recognition, and touch sensing technologies, which provide us with significant competitive advantages. Our intellectual property includes more than 58 patents issued and more than 24 patents pending. We conduct ongoing research, development, and engineering programs that concentrate on advancing our technologies and expanding them to serve new markets, enhancing the quality and performance of our product solutions, and developing new product solutions. Our technology enables us to develop innovative, intuitive, user-friendly interfaces that address the needs of our customers and improve their competitive positions. Our vision is to develop interface solutions that integrate touch, handwriting, voice, and vision capabilities that can be readily incorporated into various electronic devices.

Expanding Market Leadership. We believe significant growth potential exists in our core notebook computer interface market. The market for notebook computer interfaces continues to grow as businesses are increasingly replacing desktop computers with notebooks. International Data Corporation, or IDC, forecasts an overall compound annual growth rate, or CAGR, of nearly 16.1% during the period from 2000 to 2004 compared to 9.0% for desktop computers during the same period. In addition, our TouchStyk will enable us to address the approximately 25% of the notebook computer market that utilizes pointing sticks as the interface; new TouchPad offerings will provide us with the opportunity to expand our leadership in the approximately 70% of the notebook computer market that utilizes touch pads; and our dual pointing solutions will enable us to serve that expanding portion of the market.

Significant iAppliance Opportunity. We believe our interface solutions address the need for portability, connectivity, and functionality demanded by manufacturers and end users in the rapidly growing iAppliance markets. Our cost-effective solutions are intended to offer ease of use, low power consumption, a small form factor, high reliability, and durability and foster larger and clearer-resolution display screens. We believe these characteristics will become increasingly important to those iAppliances that allow for information access, management, and exchange anywhere and anytime, and will facilitate our penetration into those markets.

Marquee Global Customer Base. Our customers include nine of the world's ten largest notebook computer OEMs. We expect that our long-standing relationships with these customers, as well as our relationships with consumer electronic manufacturers, should support our efforts to supply them with interfaces for the iAppliances that a number of those manufacturers are developing. We provide worldwide customer sales and support from our offices in the United States, the United Kingdom, China, Japan, Hong Kong, Taiwan, and Thailand.

Our Strategy

Our objective is to expand our position as the world's leading supplier of interface solutions for the notebook computer market and to become a leading supplier of interfaces for the evolving high-growth iAppliance markets. Key elements of our strategy to achieve this objective include the following:

- continue to pursue research and development in order to enhance our technological leadership, develop new technologies, extend the functionality of our product solutions, and offer innovative product solutions to our customers;
- enhance our leadership in the notebook interface market by continuing to introduce market-leading interface solutions in terms of performance, features, size, and ease of use; address the pointing stick and expanding dual pointing segments of the notebook interface market; and expand our business with several OEMs;
- capitalize on the evolution and growth of the worldwide iAppliance markets;
- emphasize and expand our strong and long-lasting customer relationships and continue to provide the most advanced interface solutions for our customers' products;
- develop strategic relationships and pursue strategic acquisitions to enhance our research and development capabilities, leverage our technology, introduce new value-added customer solutions, and enter new markets; and

- conduct virtual manufacturing in which we outsource our production requirements to third parties to provide a scalable business model; enable us to focus on our core competencies of research and development, technological advances, and product solution design; and reduce our capital expenditures and inventory requirements.

Our Offices

We maintain our principal executive offices at 2381 Bering Drive, San Jose, California 95131, and our telephone number is (408) 434-0110. Our Website is located at http://www.synaptics.com. The information contained at our Website does not constitute part of this prospectus.

The Offering

Common stock offered	5,000,000 shares
Common stock to be outstanding after this offering	22,707,366 shares
Use of proceeds	We intend to use the proceeds from this offering to expand sales and marketing activities, for strategic relationships and acquisitions, and for working capital and general corporate purposes. See “Use of Proceeds.”
Proposed Nasdaq National Market Symbol	SYNA

The number of shares of common stock to be outstanding after this offering is based upon our outstanding shares as of June 30, 2001, assuming the exercise of a warrant to purchase 32,000 shares of our Series E preferred stock and the conversion of our outstanding preferred stock into common stock. These shares exclude 3,971,241 shares of common stock issuable upon the exercise of outstanding stock options at June 30, 2001 with a weighted average exercise price of $2.81 per share and 742,684 shares reserved for issuance under our stock option plans at June 30, 2001. Also excludes up to 237,500 shares in connection with contingent consideration for acquisitions.

Except when otherwise indicated, the information in this prospectus

- *gives effect to a change-of-domicile merger in which we will be reincorporated in Delaware;*
- *assumes the exercise of a warrant to purchase 32,000 of our Series E preferred stock prior to the closing of this offering;*
- *assumes the automatic conversion of all of our preferred stock into 11,105,517 shares of our common stock prior to the closing of this offering; and*
- *assumes no exercise by the underwriters of their option to purchase additional shares of stock from the selling stockholders to cover over-allotments, if any.*

All references to “we,” “us,” “our,” “Synaptics,” or “the company” in this prospectus mean Synaptics Incorporated and all entities owned or controlled by Synaptics Incorporated, except where it is clear that the term means only the parent company.

TouchPad(TM), TouchStyk(TM), ClearPad(TM), and Spiral(TM) are trademarks of Synaptics and QuickStroke® is a registered trademark of Synaptics. All other trademarks, service marks, and trade names referred to in this prospectus are the property of their respective owners. As used in this prospectus, the terms “iAppliance” and “iAppliance markets” refer to a class of mobile computing and communication devices that include PDAs, smart phones, and a variety of mobile, handheld, wireless, and Internet devices, and the markets for those products. The term iAppliance is not a trademark, service mark, or trade name of our company, and these devices are referred to by others in a variety of ways, including Internet devices, smart handheld devices, digital appliances, and net appliances.

SUMMARY CONSOLIDATED FINANCIAL DATA

The following table sets forth our summary historical consolidated financial data. You should read this information in conjunction with our consolidated financial statements, including the related notes, and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included elsewhere in this prospectus.

	Years Ended June 30,		
	1999	2000	2001*

	(in thousands, except for share and per share data)		
Consolidated Statement of Operations Data:			
Net revenue	$ 29,842	$ 43,447	$ 73,698
Cost of revenue(1)	17,824	25,652	50,811
Gross margin	12,018	17,795	22,887
Operating expenses:			
Research and development(1)	4,851	8,386	11,590
Selling, general, and administrative(1)	5,534	7,407	9,106
Acquired in-process research and development	—	855	—
Amortization of goodwill and other acquired intangible assets	—	605	784
Amortization of deferred stock compensation	—	82	597
Total operating expenses	10,385	17,335	22,077
Operating income	1,633	460	810
Interest income, net	334	365	180
Income before income taxes and equity losses	1,967	825	990
Provision for income taxes	40	120	180
Equity in losses of an affiliated company	—	(2,712)	—
Net income (loss)	$ 1,927	$ (2,007)	$ 810
Net income (loss) per share:			
Basic	$ 0.46	$ (0.38)	$ 0.13
Diluted	$ 0.12	$ (0.38)	$ 0.04
Shares used in computing net income (loss) per share:			
Basic	4,147,159	5,222,738	6,133,866
Diluted	15,897,146	5,222,738	19,879,491
Pro forma net income per share:			
Basic			$ 0.05
Diluted			$ 0.04
Shares used in computing pro forma net income per share:			
Basic			17,207,403
Diluted			19,879,491

* Fiscal year ended June 30, 2001 consisted of 53 weeks.

(1) Cost of revenue and research and development expense exclude $23,000 and $162,000, respectively, of amortization of deferred stock compensation for the year ended June 30, 2001. Selling, general, and administrative expense excludes $82,000 and $412,000 of amortization of deferred stock compensation for the years ended June 30, 2000 and 2001, respectively. These amounts have been aggregated and reflected as a single line item above.

	June 30, 2001	
	Actual	As Adjusted
	(in thousands)	
Consolidated Balance Sheet Data:		
Cash and cash equivalents	$ 3,766	$ 53,316
Working capital	12,974	62,524
Total assets	27,157	76,707

Long-term debt, capital leases, and equipment financing obligations, less current portion	1,829	1,829
Total stockholders' equity	13,754	63,384

The as adjusted consolidated balance sheet data gives effect to the following:

- the assumed exercise of a warrant to purchase 32,000 shares of our Series E preferred stock prior to the closing of this offering;
- the conversion into common stock of our outstanding preferred stock prior to the closing of this offering; and
- the sale of 5,000,000 shares of common stock to be sold in this offering at an assumed initial public offering price of $11.00 per share, less underwriting discounts and commissions and other estimated offering expenses.

We calculated basic net income per common share and basic and diluted net loss per common share by dividing the net income (loss) for the period by the weighted average number of common shares outstanding during the period, less weighted shares subject to repurchase. Diluted net income per common share also includes the effect of potentially dilutive securities, including stock options, warrants, and convertible preferred stock, when dilutive.

We calculated pro forma net income per common share, basic and diluted, using the weighted average number of common shares described above and also assumed the conversion of all outstanding shares of preferred stock into common stock as if the shares had converted immediately upon issuance.

RISK FACTORS

Before you invest in our common stock, you should be aware that there are risks, including those set forth below. You should carefully consider these risk factors, together with all the other information included in this prospectus, before you decide to purchase shares of our common stock.

Risks Related to our Business

We depend on one product family, TouchPads, and one market, notebook computers, for our revenue, and a downturn in this product or market could have a more disproportionate impact on our revenue than if we were more diversified.

Historically, we have derived substantially all of our revenue from the sale of our TouchPads for notebook computers. Our new TouchStyk product solution also is targeted at the notebook computer market. The personal computer, or PC, market as a whole recently has experienced a slowdown in growth. While our long-term objective is to derive revenue from multiple interface solutions for both the notebook computer market and the iAppliance markets, we anticipate that sales of our TouchPads and TouchStyks for notebooks will continue to represent the most substantial portion of our revenue, at least in the near term. As a result, a decline in the demand in the notebook portion of the PC market would cause our business, financial condition, and results of operations to suffer more than they would have if we offered a more diversified line of products.

Our emerging iAppliance interface business may not be successful.

Our emerging iAppliance interface business, from which we expect to derive substantial revenue in the future, faces many uncertainties. Our inability to address these uncertainties successfully and to become a leading supplier of interfaces to the iAppliance markets would result in a slower growth rate than we currently anticipate.

Various target markets for our iAppliance interfaces, such as those for PDAs, smart phones, smart handheld products, Web terminals, Internet appliances, and interactive games and toys, are uncertain, may develop slower than anticipated, or could utilize competing technologies. The market for these products depends in part upon the development and deployment of wireless and other technologies, which may or may not address the needs of users of these new products.

Our ability to generate significant revenue from the iAppliance markets will depend on various factors, including the following:

- the development and growth of these markets;
- the ability of our technologies and product solutions to address the needs of these markets, the requirements of OEMs, and the preferences of end users; and
- our ability to provide OEMs with interface solutions that provide advantages in terms of size, power consumption, reliability, durability, performance, and value-added features compared to alternative solutions.

Many manufacturers of these products have well-established relationships with competitive suppliers. Penetrating these markets will require us to offer better performance alternatives to existing solutions at competitive costs. We do not have any significant backlog of orders for our interface solutions to be incorporated in products in these markets. The revenue and income potential from these markets is unproven. The failure of any of these target markets to develop as we expect, or our failure to penetrate these markets, will impede our anticipated sales growth and could result in substantially reduced earnings from those we anticipate. We cannot predict the size or growth rate of these markets or the market share of these markets that we will achieve.

If our emerging TouchStyk, ClearPad, and Spiral solutions are not commercially accepted, our revenue growth will be negatively impacted.

Our emerging TouchStyk, ClearPad, and Spiral solutions have no established track record. The failure to incorporate these technologies successfully into our customers' products as the interface of choice would adversely affect our revenue growth. To succeed, we must help potential customers recognize the performance advantages of our solutions. The ability to produce these new products in sufficient quantities and the revenue and income potential of our new solutions are unproven.

Our historical financial information is based on sales of interface solutions to the notebook computer market and may not be indicative of our future performance in the iAppliance markets.

Our historical financial information primarily reflects the sale of interface solutions for notebook computers. While we expect this portion of our business to continue as an important contributor to our financial performance, we believe our future financial performance will be significantly impacted by sales in the iAppliance markets. We expect our percentage of revenue derived from products sold in the notebook computer market to decrease as we increase revenue from products sold in the iAppliance markets. We do not have an operating history in these markets upon which you can evaluate our prospects, which may make it difficult to predict our actual results in future periods. Actual results of our future operations may differ materially from our anticipated results.

The products of our customers may not achieve market acceptance, particularly in the case of iAppliances, and our sales will decline if sales of those products do not develop or decline.

We do not sell any products to end users. Instead, we design various interface solutions that our OEM customers incorporate into their products. As a result, our success depends almost entirely upon the widespread market acceptance of our customers' products, many of which are just emerging, particularly in the case of iAppliances. We do not control or influence the manufacture, promotion, distribution, or pricing of the products that incorporate our interface solutions. Instead, we depend on our customers to manufacture and distribute products and to generate consumer demand through marketing and promotional activities. Even if our technologies successfully meet our customers' price and performance goals, our sales would decline or fail to develop if our customers do not achieve commercial success in selling their products that incorporate our interface solutions.

Our current customer base consists primarily of major U.S.-based OEMs that sell notebook computers worldwide. Competitive advances by Japan-based OEMs at the expense of U.S.-based OEMs could result in lost sales opportunities for our customers. Any significant slowdown in the demand for our customers' products or the failure in the marketplace of new products of our customers would adversely affect the demand for our interface solutions and our future sales would decline.

If we fail to maintain and build relationships with our customers and do not continue to satisfy our customers, we may lose future sales and our company may stagnate or decline.

Because our success depends on the widespread market acceptance of our customers' products, we must continue to maintain our relationships with the leading notebook computer OEMs. In addition, we must identify areas of significant growth potential in the emerging iAppliance markets, establish relationships with OEMs in those markets, and assist those OEMs in developing products that use our interface technologies. Our failure to identify potential growth opportunities, particularly in the iAppliance markets, or establish and maintain relationships with OEMs in those markets, would prevent our business from growing in those markets.

Our ability to meet the expectations of our customers requires us to provide innovative interface solutions for customers on a timely and cost-effective basis and to maintain customer satisfaction with our interface solutions. We must match our design and production capacity with customer demand, maintain satisfactory delivery schedules, and meet performance goals. If we are unable to achieve these goals for any reason, our customers could reduce their purchases from us and our sales would decline or fail to develop.

We relied on two companies in fiscal 2001 for an aggregate of 43% of our sales and the loss of sales to either of those companies could harm our business, financial condition, and results of operations.

Sales to two companies that provide manufacturing services for major notebook computer OEMs accounted for 32% and 11% of our net revenue during the fiscal year ended June 30, 2001, and four companies accounted for 24%, 13%, 13%, and 12% of our net revenue for the fiscal year ended June 30, 2000. These companies are Quanta and Nypro in fiscal 2001 and Quanta, Arima, Inventec, and Compal in fiscal 2000. Additionally, receivables from Quanta and Nypro comprised 37% and 13% of our accounts receivable at June 30, 2001.

These contract manufacturers serve our OEM customers. Any material delay, cancellation, or reduction of orders from any one or more of these contract manufacturers or the OEMs they serve could harm our business, financial condition, and results of operations. The adverse effect would be more substantial if our other customers in the notebook computer industry do not increase their orders or if we are unsuccessful in generating orders for iAppliance interface solutions from existing or new customers. Many of these contract manufacturers sell to the same OEMs, and therefore our concentration with certain OEMs may be higher than with any individual contract manufacturer. Concentration in our customer base may make fluctuations in revenue and earnings more severe and make business planning more difficult.

Our revenue may decline if customers for which we are sole source providers seek alternative sources of supply.

We serve as the sole source provider for many of our customers. Those customers may choose to reduce their dependence on us by seeking second sources of supply, which could reduce our revenue. To remain a sole source provider, we must continue to demonstrate to our customers that we have adequate alternate sources for components, that we maintain adequate alternatives for production, and that we can deliver our products on a timely basis.

We rely on others for our production, and any interruptions of these arrangements could disrupt our ability to fill our customers' orders.

We contract for all of our production requirements. The majority of our manufacturing is conducted in China, Thailand, and Taiwan by manufacturing subcontractors that also perform services for numerous other companies. We do not have a guaranteed level of production capacity. Qualifying new manufacturing subcontractors, and specifically semiconductor foundries, is time-consuming and might result in

unforeseen manufacturing and operations problems. The loss of our relationships with our manufacturing subcontractors or assemblers or their inability to conduct their manufacturing and assembly services for us as anticipated in terms of cost, quality, and timeliness could adversely affect our ability to fill customer orders in accordance with required delivery, quality, and performance requirements. If this were to occur, the resulting decline in revenue would harm our business.

We depend on third parties to maintain satisfactory manufacturing yields and delivery schedules, and their inability to do so could increase our costs, disrupt our supply chain, and result in our inability to deliver our products, which would adversely affect our results of operations.

We depend on our manufacturing subcontractors to maintain high levels of productivity and satisfactory delivery schedules at manufacturing and assembly facilities in China, Thailand, and Taiwan. We provide our manufacturing subcontractors with six-month rolling forecasts of our production requirements. We do not, however, have long-term agreements with any of our manufacturing subcontractors that guarantee production capacity, prices, lead times, or delivery schedules. Our manufacturers serve many other customers, a number of which have greater production requirements than we do. As a result, our manufacturing subcontractors could determine to prioritize production capacity for other customers or reduce or eliminate deliveries to us on short notice. At times, we have experienced lower than anticipated manufacturing yields and lengthening of delivery schedules. Lower than expected

manufacturing yields could increase our costs or disrupt our supplies. We may encounter lower manufacturing yields and longer delivery schedules in commencing volume production of our new products. Any of these problems could result in our inability to deliver our product solutions in a timely manner and adversely affect our operating results.

Shortages of components and materials may delay or reduce our sales and increase our costs, thereby harming our results of operations.

The inability to obtain sufficient quantities of components and other materials necessary for the production of our products could result in reduced or delayed sales or lost orders. Any delay in or loss of sales could adversely impact our operating results. Many of the materials used in the production of our products are available only from a limited number of foreign suppliers, particularly suppliers located in Asia. In most cases, neither we nor our manufacturing subcontractors have long-term supply contracts with these suppliers. As a result, we are subject to economic instability in these Asian countries as well as to increased costs, supply interruptions, and difficulties in obtaining materials. Our customers also may encounter difficulties or increased costs in obtaining the materials necessary to produce their products into which our product solutions are incorporated.

From time to time, materials and components used in our product solutions or in other aspects of our customers' products have been subject to allocation because of shortages of these materials and components. During fiscal 2000 and 2001, limited manufacturing capacity for ASICs resulted in significant cost increases of our ASICs. Similar shortages in the future could cause delayed shipments, customer dissatisfaction, and lower revenue.

We are subject to lengthy development periods and product acceptance cycles, which can result in development and engineering costs without any future revenue.

We provide interface solutions that are incorporated by OEMs into the products they sell. OEMs make the determination during their product development programs whether to incorporate our interface solutions or pursue other alternatives. This process requires us to make significant investments of time and resources in the custom design of interface solutions well before our customers introduce their products incorporating these interfaces and before we can be sure that we will generate any significant sales to our customers or even recover our investment. During a customer's entire product development process, we face the risk that our interfaces will fail to meet our customer's technical, performance, or cost requirements or that our products will be replaced by a competitive product or alternative technological solutions. Even if we complete our design process in a manner satisfactory to our customer, the customer may delay or terminate its product development efforts. The occurrence of any of these events could cause sales to be deferred or to be cancelled, which would adversely affect our operating results for that period.

We do not have long-term purchase commitments from our customers, and their ability to cancel, reduce, or delay an order could reduce our revenue and increase our costs.

Our customers do not provide us with firm, long-term volume purchase commitments. As a result, customers can cancel purchase commitments or reduce or delay orders at any time. The cancellation, delay, or reduction of customer commitments could result in reduced revenue, excess inventory, and unabsorbed overhead. Substantially all of our sales to date have been in the notebook computer market, and we expect an increasing portion of our sales will be in the emerging iAppliance markets. All of these markets are subject to severe competitive pressures, rapid technological change, and product obsolescence, which increase our inventory and overhead risks resulting in increased costs.

We face intense competition that could result in our losing or failing to gain market share and suffering reduced revenue.

We serve intensely competitive markets that are characterized by price erosion, rapid technological change, and competition from major domestic and international companies. This intense competition could

result in pricing pressures, lower sales, reduced margins, and lower market share. Some of our competitors, particularly in the iAppliance markets, have greater market recognition, larger customer bases, and substantially greater financial, technical, marketing, distribution, and other resources than we possess and that afford them competitive advantages. As a result, they may be able to devote greater resources to the promotion and sale of products, to negotiate lower prices on raw materials and components, to deliver competitive products at lower prices, and to introduce new product solutions and respond to customer requirements more quickly than we can. Our competitive position could suffer if one or more of our customers decide to design and manufacture their own interfaces, to contract with our competitors, or to use alternative technologies.

Our ability to compete successfully depends on a number of factors, both within and outside our control. These factors include the following:

- our success in designing and introducing new interface solutions, including those implementing new technologies;
- our ability to predict the evolving needs of our customers and to assist them in incorporating our technologies into their new products;
- our ability to meet our customer's requirements for low power consumption, ease of use, reliability, durability, and small form factor;
- the quality of our customer services;
- the rate at which customers incorporate our interface solutions into their own products;
- product or technology introductions by our competitors; and
- foreign currency fluctuations, which may cause a foreign competitor's products to be priced significantly lower than our product solutions.

If we do not keep pace with technological innovations, our products may not be competitive and our revenue and operating results may suffer.

We operate in rapidly changing markets. Technological advances, the introduction of new products, and new design techniques could adversely affect our business unless we are able to adapt to the changing conditions. Technological advances could render our solutions obsolete, and we may not be able to respond effectively to the technological requirements of evolving markets. As a result, we will be required to expend substantial funds for and commit significant resources to

- continue research and development activities on existing and potential interface solutions;
- hire additional engineering and other technical personnel; and
- purchase advanced design tools and test equipment.

Our business could be harmed if we are unable to develop and utilize new technologies that address the needs of our customers, or our competitors or customers do so more effectively than we do.

Our efforts to develop new technologies may not result in commercial success, which could cause a decline in our revenue and could harm our business.

Our research and development efforts with respect to new technologies may not result in customer or market acceptance. Some or all of those technologies may not successfully make the transition from the research and development lab to cost-effective production as a result of technology problems, competitive cost issues, yield problems, and other factors. Even when we successfully complete a research and development effort with respect to a particular technology, our customers may decide not to introduce or may terminate products utilizing the technology for a variety of reasons, including the following:

- difficulties with other suppliers of components for the products;

- superior technologies developed by our competitors and unfavorable comparisons of our solutions with these technologies;
- price considerations; and
- lack of anticipated or actual market demand for the products.

The nature of our business requires us to make continuing investments for new technologies. To facilitate the development of our inductive technology, we completed the acquisition of Absolute Sensors Limited during fiscal 2000. We may be required to make similar acquisitions and other investments in the future to maintain or enhance our ability to offer technological solutions.

Significant expenses relating to one or more new technologies that ultimately prove to be unsuccessful for any reason could have a material adverse effect on us. In addition, any investments or acquisitions made to enhance our technologies may prove to be unsuccessful. If our efforts are unsuccessful, our business could be harmed.

We may not be able to enhance our existing product solutions and develop new product solutions in a timely manner.

Our future operating results will depend to a significant extent on our ability to continue to provide new interface solutions that compare favorably with alternative solutions on the basis of time to introduction, cost, and performance. Our success in maintaining existing and attracting new customers and developing new business depends on various factors, including the following:

- innovative development of new solutions for customer products;
- utilization of advances in technology;
- maintenance of quality standards;
- efficient and cost-effective services; and
- timely completion of the design and introduction of new interface solutions.

Our inability to timely enhance our existing product solutions and develop new product solutions could harm our operating results and impede our growth.

A technologically new interface solution that achieves significant market share could harm our business.

Our interface solutions are designed to integrate touch, handwriting, and vision capabilities. New computing and communications devices could be developed that call for a different interface solution. Existing devices also could be modified to allow for a different interface solution. Our business could be harmed if our products become noncompetitive as a result of a technological breakthrough that allows a new interface solution to displace our solutions and achieve significant market acceptance.

International sales and manufacturing risks could adversely affect our operating results.

Our manufacturing and assembly operations are conducted in China, Thailand, and Taiwan, and we have subsidiaries in Taiwan and England. These international operations expose us to various economic, political, and other risks that could adversely affect our operations and operating results, including the following:

- difficulties and costs of staffing and managing a multi-national organization;
- unexpected changes in regulatory requirements;
- differing labor regulations;
- potentially adverse tax consequences;
- tariffs and duties and other trade barrier restrictions;

- possible employee turnover or labor unrest;
- greater difficulty in collecting accounts receivable;
- the burdens and costs of compliance with a variety of foreign laws;
- potentially reduced protection for intellectual property rights; and
- political or economic instability in certain parts of the world.

Sales to Taiwan-based contract manufacturers for OEMs based in the United States account for a significant percentage of our net sales. In fiscal 2001, sales to Taiwan-based contract manufacturers for U.S.-based OEMs alone accounted for 80% of our net sales. In the future, we expect sales to OEMs based in Europe and Japan to increase. The risks associated with international operations could negatively affect our operating results.

Our business may suffer if international trade is hindered, disrupted, or economically disadvantaged.

Political and economic conditions abroad may adversely affect the foreign production and sale of our products. Protectionist trade legislation in either the United States or foreign countries, such as a change in the current tariff structures, export or import compliance laws, or other trade policies, could adversely affect our ability to sell interface solutions in foreign markets and to obtain materials or equipment from foreign suppliers.

Changes in policies by the U.S. or foreign governments resulting in, among other things, higher taxation, currency conversion limitations, restrictions on the transfer of funds, or the expropriation of private enterprises also could have a material adverse effect on us. Any actions by countries in which we conduct business to reverse policies that encourage foreign investment or foreign trade also could adversely affect our operating results. In addition, U.S. trade policies, such as “most favored nation” status and trade preferences for certain Asian nations, could affect the attractiveness of our services to our U.S. customers and adversely impact our operating results.

Our operating results could be adversely affected by fluctuations in the value of the U.S. dollar against foreign currencies.

We transact business predominantly in U.S. dollars and bill and collect our sales in U.S. dollars. A weakening of the dollar could cause our overseas vendors to require renegotiation of the prices we pay for their goods and services. In the future, customers may make payments in non-

U.S. currencies. In addition, a portion of our costs, such as payroll, rent, and indirect operating costs, are denominated in non-U.S. currencies, including British pounds and Taiwan dollars.

Fluctuations in foreign currency exchange rates could affect our cost of goods and operating margins and could result in exchange losses. In addition, currency devaluation can result in a loss to us if we hold deposits of that currency. Hedging foreign currencies can be difficult, especially if the currency is not freely traded. We cannot predict the impact of future exchange rate fluctuations on our operating results.

A majority of our outsourced operations are located in Taiwan, increasing the risk that a natural disaster, labor strike, war, or political unrest in that country would disrupt our operations.

A majority of our outsourced operations are located in Taiwan. Events out of our control, such as earthquakes, fires, floods, or other natural disasters in Taiwan or political unrest, war, labor strikes, or work stoppages in Taiwan, would disrupt our operations. The risk of earthquakes in Taiwan is significant because of its proximity to major earthquake fault lines. An earthquake, such as the one that occurred in Taiwan in September 1999, could cause significant delays in shipments of our product solutions until we are able to shift our outsourced operations. In addition, there is currently significant political tension between Taiwan and China, which could lead to hostilities. If any of these events occur, we may not be able to obtain alternative capacity. Failure to secure alternative capacity could cause a delay in the shipment of our product solutions, which would cause our revenue to fluctuate or decline.

Variability of customer requirements resulting in cancellations, reductions, or delays may adversely affect our operating results.

OEM suppliers must provide increasingly rapid product turnaround and respond to ever-shorter lead times. A variety of conditions, both specific to individual customers and generally affecting the demand for their products, may cause customers to cancel, reduce, or delay orders. Cancellations, reductions, or delays by a significant customer or by a group of customers could adversely affect our operating results. On occasion, customers require rapid increases in production, which can strain our resources and reduce our margins. Although we have been able to obtain increased production capacity from our third-party manufacturers, we may be unable to do so at any given time to meet our customers' demands if their demands exceed anticipated levels.

Our operating results may experience significant fluctuations that could result in a decline of the price of our stock.

In addition to the variability resulting from the short-term nature of our customers' commitments, other factors contribute to significant periodic and seasonal quarterly fluctuations in our results of operations. These factors include the following:

- the cyclicality of the markets we serve;
- the timing and size of orders;
- the volume of orders relative to our capacity;
- product introductions and market acceptance of new products or new generations of products;
- evolution in the life cycles of our customers' products;
- timing of expenses in anticipation of future orders;
- changes in product mix;
- availability of manufacturing and assembly services;
- changes in cost and availability of labor and components;
- timely delivery of product solutions to customers;
- pricing and availability of competitive products;
- pressures on gross margins; and
- changes in economic conditions.

Accordingly, you should not rely on period-to-period comparisons as an indicator of our future performance. Fluctuations in our operating results may result in a decline in the price of our stock.

If we fail to effectively manage our growth, our infrastructure, management, and resources could be strained, our ability to effectively manage our business could be diminished, and our operating results could suffer.

The failure to manage our growth effectively could strain our resources, which would impede our ability to increase revenue. We have increased the number of our interface solutions and plan to expand further the number and diversity of our solutions and their use in the future. Our ability to manage our planned growth effectively will require us to

- successfully hire, train, retain, and motivate additional employees;
- enhance our operational, financial, and management systems; and
- expand our production capacity.

As we expand and diversify our product and customer base, we may be required to increase our overhead and selling expenses. We also may be required to increase staffing and other expenditures, including expenses in order to meet the anticipated demand of our customers. Our customers, however, do not commit to firm production schedules for more than a short time in advance. Any increase in expenses in anticipation of future orders that do not materialize would adversely affect our profitability. Our customers also may require rapid increases in design and production services that place an excessive short-term burden on our resources and the resources of our third-party manufacturers. If we cannot manage our growth effectively, our business and results of operations could suffer.

We depend on key personnel who would be difficult to replace and our business will likely be harmed if we lose their services or cannot hire additional qualified personnel.

Our success depends substantially on the efforts and abilities of our senior management and technical personnel. The competition for qualified management and technical personnel, especially engineers, is intense. Although we maintain noncompetition and nondisclosure covenants with most of our key personnel, we do not have employment agreements with any of them. The loss of services of one or more of our key employees or the inability to hire, train, and retain key personnel, especially engineers and technical support personnel, could delay the development and sale of our products, disrupt our business and interfere with our ability to execute our business plan.

Our inability to protect our intellectual property could impair our competitive advantage, reduce our revenue, and increase our costs.

Our success and ability to compete depend in part on our ability to maintain the proprietary aspects of our technologies and products. We rely on a combination of patents, copyrights, trade secrets, trademarks, confidentiality agreements, and other contractual provisions to protect our intellectual property, but these measures may provide only limited protection. We license from third parties certain technology used in and for our products. These third-party licenses are granted with restrictions, and there can be no assurances that such third-party technology will remain available to us on terms beneficial to us. Our failure to enforce and protect our intellectual property rights or obtain from third parties the right to use necessary technology could have a material adverse effect on our business, financial condition, and results of operations. In addition, the laws of some foreign countries do not protect proprietary rights as fully as do the laws of the United States.

Patents may not issue from the patent applications that we have filed or may file. Our issued patents may be challenged, invalidated, or circumvented, and claims of our patents may not be of sufficient scope or strength, or issued in the proper geographic regions, to provide meaningful protection or any commercial advantage. We have not applied for, and do not have, any copyright registration on our technologies or products. We have applied to register certain of our trademarks in the United States and other countries. There can be no assurances that we will obtain registrations of principle or other trademarks in key markets. Failure to obtain registrations could compromise our ability to protect fully our trademarks and brands and could increase the risk of challenge from third parties to our use of our trademarks and brands.

We do not consistently rely on written agreements with our customers, suppliers, manufacturers and other recipients of our technologies and products, and therefore some trade secret protection may be lost and our ability to enforce our intellectual property rights may be limited. Additionally, our customers, suppliers, manufacturers, and other recipients of our technologies and products may seek to use our technologies and products without appropriate limitations. In the past, we did not consistently require our employees and consultants to enter into confidentiality agreements, employment agreements, or proprietary information and invention agreements. Therefore, our former employees and consultants may try to claim some ownership interest in our technologies and products and may use our technologies and products competitively and without appropriate limitations.

We may be required to incur substantial expenses and divert management attention and resources in defending intellectual property litigation against us.

We may receive notices from third parties that claim our products infringe their rights. From time to time, we receive notice from third parties of the intellectual property rights such parties have obtained. We cannot be certain that our technologies and products do not and will not infringe issued patents or other proprietary rights of others. While we are not currently subject to any infringement claim, any future claim, with or without merit, could result in significant litigation costs and diversion of resources, including the attention of management, and could require us to enter into royalty and licensing agreements, all of which could have a material adverse effect on our business. There can be no assurance that such licenses could be obtained on commercially reasonable terms, if at all, or that the terms of any offered licenses would be acceptable to us. If forced to cease using such technology, there can be no assurance that we would be able to develop or obtain alternate technology. Accordingly, an adverse determination in a judicial or administrative proceeding or failure to obtain necessary licenses could prevent us from manufacturing, using, or selling certain of our products, which could have a material adverse effect on our business, financial condition, and results of operations.

Furthermore, parties making such claims could secure a judgment awarding substantial damages, as well as injunctive or other equitable relief that could effectively block our ability to make, use, or sell our products in the United States or abroad. Such a judgment would have a material adverse effect on our business, financial condition, and results of operations. In addition, we are obligated under certain agreements to indemnify the other party in connection with infringement by us of the proprietary rights of third parties. In the event we are required to indemnify parties under these agreements, it could have a material adverse effect on our business, financial condition, and results of operations.

We may incur substantial expenses and divert management resources in prosecuting others for their unauthorized use of our intellectual property rights.

The markets in which we compete are characterized by frequent litigation regarding patents and other intellectual property rights. Other

companies, including our competitors, may develop technologies that are similar or superior to our technologies, duplicate our technologies, or design around our patents and may have or obtain patents or other proprietary rights that would prevent, limit, or interfere with our ability to make, use, or sell our products. Effective intellectual property protection may be unavailable or limited in some foreign countries, such as China and Taiwan, in which we operate. Unauthorized parties may attempt to copy or otherwise use aspects of our technologies and products that we regard as proprietary. There can be no assurance that our means of protecting our proprietary rights in the United States or abroad will be adequate or that competitors will not independently develop similar technologies. If our intellectual property protection is insufficient to protect our intellectual property rights, we could face increased competition in the market for our technologies and products.

Should any of our competitors file patent applications or obtain patents that claim inventions also claimed by us, we may choose to participate in an interference proceeding to determine the right to a patent for these inventions because if we fail to enforce and protect our intellectual property rights, our business would be harmed. Even if the outcome is favorable, this proceeding could result in substantial cost to us and disrupt our business.

In the future, we also may need to file lawsuits to enforce our intellectual property rights, to protect our trade secrets, or to determine the validity and scope of the proprietary rights of others. This litigation, whether successful or unsuccessful, could result in substantial costs and diversion of resources, which could have a material adverse effect on our business, financial condition, and results of operations.

If we become subject to product returns and product liability claims resulting from defects in our products, we may fail to achieve market acceptance of our products and our business could be harmed.

We develop complex products in an evolving marketplace. Despite testing by us and our customers, defects may be found in existing or new products. These defects could result in a delay in recognition or

loss of revenue, loss of market share, or failure to achieve market acceptance. Additionally, these defects could result in financial or other damages to our customers; cause us to incur significant warranty, support, and repair costs; and divert the attention of our engineering personnel from our product development efforts. In such circumstances, our customers could also seek and obtain damages from us for their losses. A product liability claim brought against us, even if unsuccessful, would likely be time consuming and costly to defend. The occurrence of these problems would likely harm our business.

Potential strategic alliances may not achieve their objectives, and the failure to do so could impede our growth.

We anticipate that we will enter into various additional strategic alliances. Among other matters, we will explore strategic alliances designed to enhance or complement our technology or to work in conjunction with our technology; to provide necessary know-how, components, or supplies; and to develop, introduce, and distribute products utilizing our technology. Any strategic alliances may not achieve their intended objectives, and parties to our strategic alliances may not perform as contemplated. The failure of these alliances may impede our ability to introduce new products and enter new markets.

Any acquisitions that we undertake could be difficult to integrate, disrupt our business, dilute stockholder value, and harm our operating results.

We expect to review opportunities to acquire other businesses or technologies that would complement our current interface solutions, expand the breadth of our markets, enhance our technical capabilities, or otherwise offer growth opportunities. While we have no current agreements or negotiations underway, we may acquire businesses, products, or technologies in the future. If we make any future acquisitions, we could issue stock that would dilute existing stockholders' percentage ownership, incur substantial debt, or assume contingent liabilities. Our experience in acquiring other businesses and technologies is limited. Potential acquisitions also involve numerous risks, including the following:

- problems assimilating the purchased operations, technologies, or products;
- unanticipated costs associated with the acquisition;
- diversion of management's attention from our core businesses;
- adverse effects on existing business relationships with suppliers and customers;
- risks associated with entering markets in which we have little or no prior experience; and
- potential loss of key employees of purchased organizations.

We cannot assure you that we would be successful in overcoming problems encountered in connection with any acquisitions, and our inability to do so could disrupt our operations and adversely affect our business.

The PC and electronics industries are cyclical and may result in fluctuations in our operating results and share price.

The PC and electronics industries have experienced significant economic downturns at various times, characterized by diminished product demand, accelerated erosion of average selling prices, and production over-capacity. In addition, the PC and electronics industries are cyclical in nature. We seek to reduce our exposure to industry downturns and cyclicality by providing design and production services for leading companies in rapidly expanding industry segments. We may, however, experience substantial period-to-period fluctuations in future operating results because of general industry conditions or events occurring in the general economy.

Legislation affecting the markets in which we compete could adversely affect our ability to implement our iAppliance strategy.

Our ability to expand our business may be adversely impacted by future laws or regulations. Our customers' products may be subject to laws relating to communications, encryption technology, electronic commerce, e-signatures, and privacy. Any of these laws could be expensive to comply with, and the marketability of our products could be adversely affected.

We must finance the growth of our business and the development of new products, which could have an adverse effect on our operating results.

To remain competitive, we must continue to make significant investments in research and development, marketing, and business development. Our failure to increase sufficiently our net sales to offset these increased costs would adversely affect our operating results.

From time to time, we may seek additional equity or debt financing to provide for expenses required to expand our business. We cannot predict the timing or amount of any such requirements at this time. If such financing is not available on satisfactory terms, we may be unable to expand our business or to develop new business at the rate desired and our operating results may suffer. Debt financing increases expenses and must be repaid regardless of operating results. Equity financing could result in additional dilution to existing stockholders.

Our business operations may be adversely affected by the California energy crisis.

Our principal executive offices are located in the Silicon Valley in Northern California. California has been experiencing an energy crisis that has resulted in disruptions in power supply and increases in utility costs to consumers and businesses throughout the State. Should the energy crisis continue, we may experience power interruptions and shortages along with many other Silicon Valley companies and be subject to significantly higher costs of energy. Although we have not experienced any material disruption to our business to date, if the energy crisis continues and power interruptions or shortages occur in the future, our ability to continue operations at our California executive offices could delay the development of our products and disrupt communications with our customers, suppliers, or manufacturing operations and thereby adversely affect our business.

Continuing uncertainty of the U.S. economy may have serious implications for the growth and stability of our business and may negatively affect our stock price.

The revenue growth and profitability of our business depends significantly on the overall demand in the notebook computer market and in the iAppliance markets. Softening demand in these markets caused by ongoing economic uncertainty may result in decreased revenue or earnings levels or growth rates. The U.S. economy has weakened and market conditions continue to be challenging, which has resulted in individuals and companies delaying or reducing expenditures. Further delays or reductions in spending could have a material adverse effect on demand for our products, and consequently on our business, financial condition, results of operations, prospects, and stock price.

Risks Related to this Offering

The market price for our common stock may be volatile, and you may not be able to sell our stock at a favorable price or at all.

Before this offering, there has been no public market for our common stock. An active public market for our common stock may not develop or be sustained after this offering. The price of our common stock in any such market may be higher or lower than the price you pay. If you purchase shares of common stock in this offering, you will pay a price that was not established in a competitive market. Rather, you

will pay the price that we negotiated with the representatives of the underwriters. Many factors could cause the market price of our common stock to rise and fall, including the following:

- variations in our quarterly results;
- announcements of technological innovations by us or by our competitors;
- introductions of new products or new pricing policies by us or by our competitors;
- acquisitions or strategic alliances by us or by our competitors;
- recruitment or departure of key personnel;
- the gain or loss of significant orders;
- the gain or loss of significant customers;
- changes in the estimates of our operating performance or changes in recommendations by any securities analysts that elect to follow our stock; and
- market conditions in our industry, the industries of our customers, and the economy as a whole.

In addition, stocks of technology companies have experienced extreme price and volume fluctuations that often have been unrelated or disproportionate to these companies' operating performance. Public announcements by technology companies concerning, among other things, their performance, accounting practices, or legal problems could cause the market price of our common stock to decline regardless of our actual operating performance.

Our charter documents and Delaware law could make it more difficult for a third party to acquire us, and discourage a takeover.

Our certificate of incorporation and the Delaware General Corporation Law contain provisions that may have the effect of making more difficult or delaying attempts by others to obtain control of our company, even when these attempts may be in the best interests of stockholders. Our certificate also authorizes the board of directors, without stockholder approval, to issue one or more series of preferred stock, which could have voting and conversion rights that adversely affect or dilute the voting power of the holders of common stock. Delaware law also imposes conditions on certain business combination transactions with "interested stockholders."

Our officers, directors, and affiliated entities own a large percentage of our company, and they could make business decisions with which you disagree that will affect the value of your investment.

We anticipate that our executive officers, directors, entities affiliated with them, and other 5% or greater stockholders will, in total, beneficially own approximately 71% of our outstanding common stock after this offering. These stockholders, acting together, would be able to influence significantly all matters requiring approval by our stockholders, including the election of directors. Thus, actions might be taken even if other stockholders, including those who purchase shares in this offering, oppose them. This concentration of ownership might also have the effect of delaying or preventing a change of control of our company, which could cause our stock price to decline.

Management will have discretion over the use of proceeds from this offering and could spend or invest those proceeds in ways with which you might not agree.

Our management will have broad discretion with respect to the use of the net proceeds of this offering, and you will be relying on the judgment of our management regarding the application of these proceeds. We currently expect to use these proceeds to increase working capital and for other general corporate purposes. In addition, we may use a portion of the net proceeds to acquire or invest in complementary businesses, products, or technologies. These investments may not yield a favorable return. If our expectations regarding financial performance and business needs prove to be inaccurate as a result of changes in our business and industry, we may use the proceeds in a manner significantly different from our current plans.

The large number of shares eligible for public sale or subject to rights requiring us to register them for public sale could cause our stock price to decline.

The market price of our common stock could decline as a result of sales of a large number of shares of our common stock in the market after this offering or the perception that these sales could occur. Based on shares outstanding as of June 30, 2001, and assuming the exercise of a warrant to acquire 32,000 shares of our Series E preferred stock and the conversion of all of our preferred stock into 11,105,517 shares of common stock upon completion of this offering, we will have outstanding 22,707,366 shares of common stock. Of these shares, the common stock sold in this offering will be freely tradable, except for any shares purchased by our "affiliates" as defined in Rule 144 under the Securities Act of 1933. Of the remaining 17,707,366 shares of common stock, shares held by our officers, directors, and certain stockholders will be subject to 180-day lock-up agreements with the underwriters. Bear, Stearns & Co. Inc., in its sole discretion, may release any portion of the securities subject to these lock-up agreements. After the 180-day lock-up period, these shares may be sold in the public market, subject to prior registration or qualification for an exemption from registration, including, in the case of shares held by affiliates, compliance with volume restrictions. After the lock-up period, of these shares will be immediately available for sale in the public market without registration under Rule 144(k). The remaining shares held by our existing stockholders will become available for sale under Rule 144 or Rule 701 at varying times following the offering and after 90 days after the offering.

Stockholders owning 11,105,517 shares are entitled, under contracts providing for registration rights, to require us to register our securities owned by them for public sale. In addition, based on options outstanding as of June 30, 2001, after this offering, 3,971,241 shares will be subject to outstanding options. We intend to file a registration statement to register shares issuable upon the exercise of outstanding stock options and shares reserved for future issuance under our stock option and stock purchase plans as well as to register for resale 3,316,877 shares previously issued upon exercise of options.

Sales as restrictions end or pursuant to registration rights may make it more difficult for us to sell equity securities in the future at a time and at a price that we deem appropriate.

You will pay more for our common stock than your pro rata portion of our assets is worth; as a result, you will likely receive much less than you paid for our stock if we liquidate our assets and distribute the proceeds.

If you purchase shares of common stock in this offering, you will experience immediate and substantial dilution of $8.25 per share, based on an assumed initial public offering price of $11.00 per share. This dilution arises because our earlier investors paid substantially less than the public offering price when they purchased their shares of common stock. You will also experience dilution upon the exercise of outstanding stock options to purchase our common stock. As of June 30, 2001, there were options outstanding to purchase 3,971,241 shares of common stock with a weighted average exercise price of $2.81 per share.

You should not rely on forward-looking statements because they are inherently uncertain.

This prospectus contains forward-looking statements that involve risks and uncertainties. We use words such as "anticipate," "believe," "plan," "expect," "future," "intend," and similar expressions to identify forward-looking statements. Our actual results could differ materially from the results contemplated by these forward-looking statements because of any of the risks to our business described in this prospectus. You should not unduly rely on these forward-looking statements, which apply only as of the date of this prospectus.

USE OF PROCEEDS

Assuming an initial public offering price of $11.00 per share, we estimate that we will receive net proceeds of $49,550,000 million after deducting underwriting discounts and commissions and estimated offering expenses payable by us. We intend to use the net proceeds from this

offering

- for the expansion of sales and marketing activities,
- for strategic relationships and acquisitions, and
- for working capital and general corporate purposes.

We have not yet determined the exact amounts that we will spend for any of these uses. We are not in any discussions regarding acquisitions. The amounts and purposes for which we allocate the net proceeds of this offering may vary significantly depending upon a number of factors, including future revenue and the amount of cash generated by our operations. We may utilize up to 40% to 50% of the net proceeds of this offering in connection with our initiative to penetrate the iAppliance markets, which would include research and development, establishment of sales and marketing infrastructure, and potential strategic acquisitions. The actual amount, however, will depend on market conditions, the growth of the iAppliance markets, and our success in those markets. As a result, we will retain broad discretion in the allocation of the net proceeds from this offering. Pending the uses described above, we will invest the net proceeds in interest-bearing, investment-grade securities.

We will not receive any proceeds from the sale of common stock to be sold by the selling stockholders if the over-allotment option is exercised.

DIVIDEND POLICY

We have never declared or paid cash dividends on our preferred stock or our common stock. We currently plan to retain any earnings to finance the growth of our business rather than to pay cash dividends. Payments of any cash dividends in the future will depend on our financial condition, results of operations, and capital requirements as well as other factors deemed relevant by our board of directors.

CAPITALIZATION

The table below sets forth the following:

- our capitalization as of June 30, 2001;
- our pro forma capitalization as of June 30, 2001, reflecting the assumed exercise of a warrant to purchase 32,000 shares of Series E preferred stock, the automatic conversion prior to the closing of this offering of our preferred stock into 11,105,517 shares of our common stock, and our reincorporation in Delaware; and
- our pro forma as adjusted capitalization as of June 30, 2001 to give effect to the sale of 5,000,000 shares of common stock at an assumed initial public offering price of $11.00 per share after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us.

	June 30, 2001		
	Actual	Pro Forma	Pro Forma As Adjusted
		(unaudited) (in thousands, except for share and per share data)	
Long-term debt, capital leases, and equipment financing obligations, less current portion	$ 1,829	$ 1,829	$ 1,829
Stockholders' equity:			
Preferred stock, 12,000,000 shares (without par value) authorized, 8,170,207 shares issued and outstanding, actual; 10,000,000 shares ($.001 par value) authorized, no shares issued and outstanding, pro forma and pro forma as adjusted	18,650	—	—
Common stock, 25,000,000 shares (without par value) authorized, 6,601,849 shares issued and outstanding, actual; 60,000,000 shares ($.001 par value) authorized, 17,707,366 shares issued and outstanding, pro forma; 60,000,000 shares ($.001 par value) authorized, 22,707,366 shares issued and outstanding, pro forma as adjusted	6,194	18	23
Additional paid-in capital	—	24,906	74,451
Deferred stock compensation	(1,649)	(1,649)	(1,649)
Notes receivable from stockholders	(906)	(906)	(906)
Accumulated deficit	(8,535)	(8,535)	(8,535)
Total stockholders' equity	13,754	13,834	63,384

Total capitalization	$15,583	$ 15,663	$ 65,213

The number of shares of our common stock outstanding excludes the following:

- 3,971,241 shares issuable upon exercise of options outstanding at June 30, 2001 under our stock option plans, with a weighted average exercise price of $2.81 per share;
- 742,684 shares available for future issuance under our stock option plans at June 30, 2001; and
- up to 237,500 shares in connection with contingent consideration for acquisitions.

For a discussion of our stock plans, see Notes 6 and 8 to the consolidated financial statements.

Please read the capitalization table together with the sections of this prospectus entitled “Selected Consolidated Financial Data” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements and related notes included elsewhere in this prospectus.

DILUTION

Our pro forma net tangible book value as of June 30, 2001 was $12,895,000, or $0.73 per share of common stock. Pro forma net tangible book value per share represents the amount of our total tangible assets less total liabilities, divided by the pro forma number of outstanding shares of common stock. Pro forma outstanding shares of common stock as of June 30, 2001 assumes the exercise of a warrant to purchase 32,000 shares of our Series E preferred stock and the automatic conversion of our preferred stock outstanding into 11,105,517 shares of our common stock.

Dilution in net tangible book value per share represents the difference between the amount per share paid by purchasers of shares of our common stock in this offering and the pro forma net tangible book value per share of our common stock immediately after completion of this offering. After giving effect to our sale of 5,000,000 shares at an assumed initial public offering price of $11.00 per share and after deducting estimated underwriting discounts and commissions and our estimated offering expenses, our pro forma net tangible book value at June 30, 2001 would have been $62,445,000, or $2.75 per share. This represents an immediate increase in net tangible book value of $2.02 per share to existing stockholders and an immediate dilution in net tangible book value of $8.25 per share to purchasers of shares in this offering. The following table illustrates this per share dilution:

Assumed initial public offering price per share		$11.00
Pro forma net tangible book value per share as of June 30, 2001	$0.73	
Increase per share attributable to new investors	2.02	
Adjusted pro forma net tangible book value per share after the offering		2.75
Dilution per share to new investors		$ 8.25

The following table summarizes on a pro forma basis as of June 30, 2001, the differences between the number of shares purchased from us, the total consideration paid to us, and the average price per share paid by existing stockholders (including consideration received in connection with acquisitions) and by the new investors at an assumed initial public offering price of $11.00 per share before deducting the estimated underwriting discounts and commissions and estimated expenses of this offering.

	Shares Purchased		Total Consideration		Average Price Per Share
	Number	Percent	Amount	Percent	
Existing stockholders	17,707,366	78.0%	$21,547,000	28.1%	$ 1.22
New investors	5,000,000	22.0%	55,000,000	71.9%	11.00
Total	22,707,366	100.0%	76,547,000	$100.0%	

If the underwriters’ over-allotment option is exercised in full, the number of shares of common stock held by existing stockholders will be reduced to 16,957,366 shares, or 74.7% of the total number of shares of common stock to be outstanding after this offering, and the number of shares held by new investors will increase to 5,750,000 shares, or 25.3% of the total number of shares of common stock to be outstanding after this offering. See “Principal and Selling Stockholders.”

In the discussion and tables above, we assume no exercise of outstanding options. At June 30, 2001, there were outstanding options to purchase 3,971,241 shares of our common stock at a weighted average exercise price of $2.81 per share. The discussion and tables also exclude any shares available for future grant under our stock option plans. The issuance of common stock in connection with the exercise of these options will result in further dilution to new investors.

SELECTED CONSOLIDATED FINANCIAL DATA

The following selected consolidated financial data should be read in conjunction with our consolidated financial statements and the notes to those statements and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this prospectus.

The consolidated statements of operations data presented below for the fiscal years ended June 30, 1999, 2000, and 2001 and the consolidated balance sheet data as of June 30, 2000 and 2001 has been derived from our financial statements, which have been audited by Ernst & Young LLP, independent auditors, and which appear elsewhere in this prospectus. The consolidated statements of operations data for the fiscal years ended June 30, 1997 and 1998 and the consolidated balance sheet data as of June 30, 1997, 1998, and 1999 has been derived from our audited financial statements that are not included in this prospectus. The results for 1998, 1999, and 2000 have been restated. See Note 1 of notes to consolidated financial statements.

	Years Ended June 30,				
	1997	1998	1999	2000	2001*
	(in thousands, except for share and per share data)				
Consolidated Statement of Operations Data:					
Net revenue	$ 29,450	$ 23,167	$ 29,842	$ 43,447	$ 73,698
Cost of revenue(1)	18,878	17,734	17,824	25,652	50,811
Gross margin	10,572	5,433	12,018	17,795	22,887
Operating expenses:					
Research and development(1)	4,057	3,874	4,851	8,386	11,590
Selling, general, and administrative(1)	3,834	4,142	5,534	7,407	9,106
Acquired in-process research and development	—	—	—	855	—
Amortization of goodwill and other acquired intangible assets	—	—	—	605	784
Amortization of deferred stock compensation	—	—	—	82	597
Total operating expenses	7,891	8,016	10,385	17,335	22,077
Operating income (loss)	2,681	(2,583)	1,633	460	810
Interest income, net	402	397	334	365	180
Income (loss) before income taxes and equity losses	3,083	(2,186)	1,967	825	990
Provision for income taxes	121	—	40	120	180
Equity in losses of an affiliated company	—	(1,500)	—	(2,712)	—
Net income (loss)	$ 2,962	$ (3,686)	$ 1,927	$ (2,007)	$ 810
Net income (loss) per share:					
Basic	$ 0.79	$ (0.93)	$ 0.46	$ (0.38)	$ 0.13
Diluted	$ 0.19	$ (0.93)	$ 0.12	$ (0.38)	$ 0.04
Shares used in computing net income (loss) per share:					
Basic	3,743,936	3,978,703	4,147,159	5,222,738	6,133,866
Diluted	15,516,288	3,978,703	15,897,146	5,222,738	19,879,491
Pro forma net income per share:					
Basic					$ 0.05
Diluted					$ 0.04
Shares used in computing pro forma net income per share:					
Basic					17,207,403
Diluted					19,879,491

* Fiscal year ended June 30, 2001 consisted of 53 weeks.

(1) Cost of revenue and research and development expense exclude $23,000 and $162,000, respectively, of amortization of deferred stock compensation for the year ended June 30, 2001. Selling, general, and administrative expense excludes $82,000 and $412,000 of amortization of deferred stock compensation for the years ended June 30, 2000 and 2001, respectively. These amounts have been aggregated and reflected as a single line item above.

	June 30,				
	1997	1998	1999	2000	2001
			(in thousands)		
Consolidated Balance Sheet Data:					
Cash and cash equivalents	$12,204	$11,513	$11,711	$ 6,507	$ 3,766
Working capital	12,744	10,681	13,057	10,695	12,974
Total assets	17,594	16,564	18,051	20,661	27,157
Long-term debt, capital leases, and equipment financing obligations, less current portion	449	1,831	1,850	1,700	1,829
Total stockholders' equity	13,314	9,729	11,757	11,538	13,754

Amounts for the years ended June 30, 2000 and 2001 include the results of operations of Synaptics (UK) Limited (formerly Absolute Sensors Limited) from the date of acquisition in October 1999.

We calculated basic net income per common share and basic and diluted net loss per common share by dividing the net income (loss) for the period by the weighted average number of common shares outstanding during the period, less weighted shares subject to repurchase. Diluted net income per common share also includes the effect of potentially dilutive securities including stock options, warrants, and convertible preferred stock, when dilutive.

We calculated pro forma net income per common share, basic and diluted, using the weighted average number of common shares described above and also assumed the conversion of all outstanding shares of preferred stock into common stock as if the shares had converted immediately upon issuance.

Our fiscal year ends on the last Saturday in June. For ease of presentation in this prospectus, however, all fiscal years have been shown as ending on June 30. Fiscal year 2001 consisted of 53 weeks. Each of the prior years presented consisted of 52 weeks.

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

You should read the following discussion and analysis in conjunction with our financial statements and related notes contained elsewhere in this prospectus. This discussion contains forward-looking statements that involve risks, uncertainties, and assumptions. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of a variety of factors, including those set forth under 'Risk Factors' and elsewhere in this prospectus.

Overview

We are the leading worldwide developer and supplier of custom-designed user interface solutions that enable people to interact more easily and intuitively with a wide variety of mobile computing and communications devices. From our inception in 1986 through 1994, we were a development stage company, focused on developing and refining our pattern recognition and capacitive sensing technologies, and generated revenue by providing contract engineering and design services. In 1995, we introduced our proprietary TouchPad and are now the leading supplier of touch pads to the notebook computer market. We estimate our market share to be approximately 61% for touch pads and approximately 40% for all notebook computer interfaces for fiscal 2001. We believe our market share penetration results from the combination of our customer focus and the strength of our intellectual property, which allows us to design products that meet the demanding design specifications of OEMs.

Although we derive substantially all of our revenue from sales of our interface solutions to contract manufacturers that provide manufacturing services to OEMs, the OEMs typically determine the design and pricing requirements and make the overall decision regarding the use of our interface solutions in their products. Therefore, we consider both the OEMs and their contract manufacturers to be our customers. The term "customer" as used in this prospectus refers to both our OEM and contract manufacturer customers. Our financial statements reflect the revenue we receive from the sale of our products to the contract manufacturers, most of which are located in Taiwan. The contract manufacturers place orders with us for the purchase of our products, take title to the products purchased upon shipment by us, and pay us directly for those purchases. These customers have no return privileges, except for warranty provisions.

In April 2000, we began shipping our initial dual pointing solution, which includes third-party products, that enables notebook OEMs to offer end users the combination of both a touch pad and a pointing stick. In January 2001, we achieved our first design win incorporating our proprietary pointing stick solution, TouchStyk, into a dual pointing application for use in a notebook computer. A design win means that we and a customer have agreed on the product design specifications, the pricing, and the development and production schedules. With the introduction of our TouchStyk, we now offer OEMs the choice of a touch pad, a pointing stick, or a combination of both of our proprietary interface devices for dual

pointing applications. We believe that our proprietary TouchStyk will enable us to penetrate the approximate 25% portion of the notebook market that utilizes the pointing stick as the interface solution and thereby increase our total market share of the overall notebook interface market. In addition, we plan to leverage our industry-leading capacitive sensing technology and introduce our new ClearPad and Spiral technologies into the emerging high-growth iAppliance markets.

We have experienced significant demand for our dual pointing solutions, which results in higher revenue because we are able to sell two interface solutions for each notebook computer. All of our dual pointing revenue, however, is currently derived from product solutions that include a significant percentage of third-party products, which we either resell or license. As a consequence, the gross margin on our dual pointing revenue to date has been well below the gross margin we experience from the sale of our proprietary interface solutions. In the second half of fiscal 2001, we began to see the benefits from phasing in cost improvement programs aimed at reducing the cost of our current dual pointing solutions. We expect to see continuing improvement in our margin as our cost-improvement programs are implemented across our existing dual pointing product line. For fiscal 2001, however, dual pointing revenue had a

significant negative impact on our gross margin compared to fiscal 2000. Although our dual pointing solutions containing third-party products will continue to represent a significant portion of our dual pointing revenue for the foreseeable future, we also expect to begin shipments of our new proprietary dual pointing solution in the first fiscal quarter of 2002. We expect the combination of the full implementation of our cost-improvement programs for our existing dual pointing solutions together with our new proprietary dual pointing solutions will continue to improve our gross margin in future periods.

We recognize revenue upon shipment of our products and passage of title to our customers. Our revenue increased from $29.5 million in fiscal 1997 to $73.7 million in fiscal 2001, a compound annual growth rate of approximately 26%. During that period, our revenue increased each year, except fiscal 1998 when a major competitor initiated an aggressive pricing strategy, which significantly reduced the average selling price for our products, causing our revenue to decline approximately 21% while our unit shipments increased. That competitor has since exited the touch pad business, and we have established ourselves as a market leader in providing interface solutions to the notebook market. Through fiscal 2000, all of our product revenue was derived from the notebook computer market. We began to generate revenue from the iAppliance markets in fiscal 2001.

While we have been awarded design wins by key Japanese OEMs of notebook computers, some of which are currently ordering and receiving products from us, our largest customers are the major U.S.-based OEMs that sell notebook computers worldwide. Any downturn in the notebook computer market or a competitive shift from U.S. to Japanese OEMs could have a material adverse effect on our business, financial condition, results of operations, and prospects. We work closely with our customers to design interface solutions to meet their specific requirements and provide both pre-sale custom-design services and post-sale support. During the design phase, we typically do not have any commitment from our customers to pay for our non-recurring engineering costs should any customer decide not to introduce that specific product or choose not to incorporate our interface solution in its products. We believe our focus on customer service and support has allowed us to develop strong customer relationships in the PC market, which we plan to expand in the future, and has provided us with the experience necessary to develop strong customer relationships in the new markets we intend to penetrate.

Our manufacturing operations are based on a variable cost model in which we outsource all of our production requirements, eliminating the need for significant capital expenditures and allowing us to minimize our investment in inventories. This approach requires us to work closely with our manufacturing subcontractors to ensure adequate production capacity to meet our forecasted volume requirements. We provide our manufacturing subcontractors with six-month rolling forecasts and issue purchase orders based on our anticipated requirements for the next 90 days. We do not have any long-term supply contracts with any of our manufacturing subcontractors. Currently, we primarily use one third-party manufacturer to provide our ASICs, and in certain cases, we also rely on single source or a limited number of suppliers to provide other key components of our products. Our cost of sales includes all costs associated with the production of our products, including materials, manufacturing, and assembly costs paid to third-party manufacturers and related overhead costs associated with our manufacturing operations personnel. Additionally, all warranty costs and any inventory provisions or write-downs are expensed as cost of sales.

Our gross margin generally reflects the combination of the added value we bring to our customers' products in meeting their custom design requirements and our ongoing cost-improvement programs. The decline in gross margin in fiscal 1998, primarily reflected the impact of intense price competition initiated by a key competitor, as was discussed above. In fiscal 2001, we experienced significant pressure on our gross margin, resulting from the increasing revenue mix of dual pointing solutions containing third-party products. We have been successful in implementing cost reductions that will significantly improve the gross margins of these dual pointing solutions. These cost-improvement programs include reducing component costs and design and process improvements. In addition, we anticipate that gross margins will improve when we begin shipping our proprietary dual pointing solutions and our TouchStyk in volume. In the future, we plan to introduce additional new products, which may initially negatively impact our gross margins, as has been the case with our dual pointing solutions.

Our research and development expenses include expenses related to product development, engineering, materials costs, and the costs incurred to design interface solutions for customers prior to the customers' commitment to incorporate those solutions into their products. These expenses have generally increased, both as a percentage of revenue and in absolute dollars, reflecting our continuing commitment to the technological and design innovation required to maintain a leadership position in our existing market and to develop new technologies for new markets. The significant increase in research and development expenses in fiscal 2000 was primarily attributable to our October 1999 acquisition of Absolute Sensors Limited, or ASL, a company located in Cambridge, United Kingdom, which has been developing inductive pen-sensing technology applicable to new markets we intend to address. Also related to this acquisition was the write-off in fiscal 2000 of acquired in-process research and development of $855,000 and the amortization of goodwill and other intangible assets of approximately $502,000. The amortization of goodwill and other intangible assets related to this acquisition totaled $753,000 in fiscal 2001.

Selling, general, and administrative expenses include expenses related to sales, marketing, and administrative personnel; internal sales and outside sales representatives' commissions; market research and consulting; and other marketing and sales activities. These expenses have increased in absolute dollars, reflecting increased headcount, commission expense associated with higher revenue levels, and additional management personnel in anticipation of our continued growth in our existing market and penetration into new markets. We utilize both inside sales personnel and outside sales representatives and agents. Some of the growth in our sales personnel resulted from the acquisition of the employees

of a former Taiwanese sales agent in June 1999. The amortization of goodwill and other intangible assets related to this acquisition totaled $103,000 and $31,000 in fiscal 2000 and fiscal 2001, respectively.

In connection with the grant of stock options to our employees, we recorded deferred stock compensation of approximately $2.1 million through fiscal 2001, representing the difference between the deemed fair value of our common stock for financial reporting purposes and the exercise price of these options at the date of grant. Deferred stock compensation is presented as a reduction of stockholders' equity and is amortized on a straight-line basis over the vesting period. Options granted are typically subject to a four-year vesting period. Restricted stock acquired through the exercise of unvested stock options is subject to our right to repurchase the unvested stock at the price paid, which right to repurchase lapses over the vesting period. We have also recorded $303,000 of deferred compensation related to options granted to consultants through fiscal 2001. (See Note 6 of notes to consolidated financial statements.) We are amortizing the deferred stock compensation over the vesting periods of the applicable options and the repurchase periods for the restricted stock. We amortized approximately $82,000 of deferred stock compensation in fiscal 2000 and approximately $597,000 of deferred stock compensation in fiscal 2001. We will incur substantial expense in future periods as a result of the amortization of the remaining $1.6 million of deferred stock compensation relating to previously granted stock options.

In August 1997, we entered into an agreement with National Semiconductor in connection with a new development-stage company, Foveon, which focuses on developing digital imaging technology and products. Under the agreement, National Semiconductor invested cash and we contributed certain non-core technology and $1.5 million of cash, financed with a limited-recourse loan to us from National Semiconductor, in exchange for a minority interest in Foveon in the form of voting convertible preferred stock. During the fiscal year ended June 30, 2000, we advanced Foveon approximately $2.7 million in the form of convertible promissory notes to help fund its on-going operating losses. Our investment in Foveon is accounted for under the equity method under which we record our share of losses incurred by Foveon on the basis of our proportionate ownership of equity and debt securities issued by that company. As we do not have any contractual obligation to provide additional funding to Foveon and we do not intend to provide further financial support, for accounting purposes our share of losses is limited to the maximum amount of our total investment in that company. During fiscal 1998, we recorded equity losses of $1.5 million as our share of Foveon's loss (limited to our investment), which reduced our carrying value of our investment in Foveon to zero. During fiscal 2000, we recorded additional equity losses of $2.7 million and accordingly had no carrying value associated with our investment in Foveon as of June 30, 2000 or 2001.

As we do not anticipate making additional investments in Foveon, we do not expect Foveon to have a material adverse impact on our future financial performance.

Utilization of tax loss carryforwards and tax credit carryforwards have either eliminated or minimized our provision for income taxes over the last five years. As of June 30, 2001, we had federal research and development tax credit carryforwards of approximately $700,000. The federal credit carryforwards will expire at various dates beginning in 2012 through 2021, if not utilized.

From inception to date, operations have been funded through a combination of private equity financings totaling $21.5 million and cash generated from operations. The last private equity financing occurred in November 1995 and totaled $4.7 million. Cash and cash equivalents at the end of fiscal 2001 were $3.8 million.

Results of Operations

The following table presents our historical operating results for the periods indicated as a percentage of revenue.

	Years Ended June 30,		
	1999	**2000**	**2001**
Net revenue	100.0%	100.0%	100.0%
Cost of revenue	59.7%	59.0%	68.9%
Gross margin	40.3%	41.0%	31.1%
Operating expenses:			
Research and development	16.3%	19.3%	15.7%
Selling, general, and administrative	18.5%	17.0%	12.4%
Acquired in-process research and development	—	2.0%	—
Amortization of goodwill and other acquired intangible assets	—	1.4%	1.1%
Amortization of deferred stock compensation	—	0.2%	0.8%
Total operating expenses	34.8%	39.9%	30.0%
Operating income	5.5%	1.1%	1.1%
Interest income, net	1.1%	0.8%	0.2%
Income before income taxes and equity losses	6.6%	1.9%	1.3%
Provision for income taxes	0.1%	0.3%	0.2%
Equity in losses of an affiliated company	—	(6.2)%	—
Net income (loss)	6.5%	(4.6)%	1.1%

Fiscal year ended June 30, 2001 compared to fiscal year ended June 30, 2000

Revenue was $73.7 million for the year ended June 30, 2001 compared to $43.4 million for the year ended June 30, 2000, an increase of

69.6%. The increase in revenue was attributable to an increase in unit volume shipments, an increase in market share, and higher average selling prices resulting from the inclusion of both a touch pad and pointing stick in our dual pointing solutions, which we began shipping in production volumes in the June 2000 quarter. Revenue from our dual pointing solutions represented approximately 41% of our revenue for the year ended June 30, 2001.

Gross margin as a percentage of revenue was 31.1% for the year ended June 30, 2001 compared to 41.0% for the year ended June 30, 2000. The decline in gross margin as a percentage of revenue resulted from sales of our dual pointing solutions, which during the year had significantly lower margins than our touch pad products as a result of the high content of third-party products, and higher costs for materials and components, which resulted from general market supply-demand imbalances during the year.

Research and development expenses increased to $11.6 million, or 15.7% of revenue, for the year ended June 30, 2001 from $8.4 million, or 19.3% of revenue, for the year ended June 30, 2000. Major contributors to the increase in spending included the ongoing development of the inductive pen-sensing technology acquired in connection with the acquisition of ASL in October 1999, additional staffing, product development, and related materials expense in our San Jose research and development organization. While research and development expenses grew approximately 38% in absolute spending, research and development expenses as a percentage of revenue declined, reflecting the combination of 69.6% revenue growth and the allocation of certain costs over a larger revenue base.

Selling, general, and administrative expenses increased to $9.1 million, or 12.4% of revenue, for the year ended June 30, 2001 from $7.4 million, or 17.0% of revenue, for the year ended June 30, 2000. The 22.9% increase in selling, general, and administrative expenses reflects non-cash stock compensation charges, increased staffing, and expenses related to our higher revenue and operating levels. The decline in selling, general, and administrative expenses as a percentage of revenue reflects the combination of 69.6% revenue growth and the allocation of certain costs over a larger revenue base.

The year ended June 30, 2000 included an $855,000 charge for the write-off of in-process research and development associated with our October 1999 acquisition of ASL. In connection with the ASL acquisition, we acquired ASL's primary technology, called Spiral. See "Purchased In-Process Research and Development."

The amortization of goodwill and other acquired intangible assets related to the acquisition of ASL resulted in total amortization expense of $753,000 in the fiscal year ended June 30, 2001 compared to $502,000 for eight months included in the fiscal year ended June 30, 2000. In July 2001, the Financial Accounting Standards Board issued two new accounting standards that change the accounting for business combinations and goodwill and other intangible assets acquired in a business combination. We are required to adopt the new standards on July 1, 2001 after which date goodwill and certain other acquired intangible assets will not be amortized. However, we will be required to perform an impairment review on at least an annual basis to determine whether any charge should be booked to reduce the carrying value of goodwill and other acquired intangible assets to their respective recoverable values. See "Recent Accounting Pronouncements."

The year ended June 30, 2001 included amortization of deferred stock compensation of $597,000. In connection with deferred compensation recorded for stock option grants through fiscal 2001, we expect to record amortization of $482,000 in fiscal 2002, $475,000 in fiscal 2003, and the balance of $692,000 in future years.

We generated operating income of $810,000 for the year ended June 30, 2001 compared to $460,000 for the year ended June 30, 2000. The increase in operating income primarily reflects the $5.1 million of additional gross margin resulting from the significant increase in revenue. This increase was partially offset by the lower gross margin percentage attributable to the high percentage of lower margin dual pointing products included in the revenue mix, incremental operating expenses associated with a larger operation, and higher materials and components costs resulting from general market supply-demand imbalances.

Income taxes of $180,000 for the year ended June 30, 2001 represented both the estimated U.S. taxes and foreign taxes associated our U.K. and Taiwanese operations. The U.S. federal research credit carryforwards totaled $700,000 at the end of fiscal 2001. The credit carryforwards will expire at various dates from 2012 through 2021 if not utilized.

Fiscal year ended June 30, 2000 compared to fiscal year ended June 30, 1999

Revenue was $43.4 million for the year ended June 30, 2000 compared to $29.8 million for the year ended June 30, 1999, an increase of 45.6%. This increase reflects an increase in unit volume shipments of TouchPads, which was partially offset by a reduction in overall average selling prices. The reduction in overall average selling prices resulted from the combination of lower shipments of a specific higher-priced touch pad that was discontinued by its OEM during fiscal 2000 and general competitive pricing pressures.

Gross margin as a percentage of revenue was 41.0% for the year ended June 30, 2000 compared to 40.3% for the year ended June 30, 1999. The increase reflects the successful execution of cost improvement programs, partially offset by a decrease in average selling prices. The most significant cost reduction resulted from transitioning to our next-generation ASIC, which is used in all of our interface solutions.

Research and development expenses increased to $8.4 million, or 19.3% of revenue, for the year ended June 30, 2000 from $4.9 million, or 16.3% of revenue, for the year ended June 30, 1999. The primary contributor to both the increase in absolute spending and the increase as a percentage of revenue was the on-going development of the pen-sensing technology associated with the acquisition of ASL in October 1999. Other factors that contributed to this increase included additional staffing, product development, and related materials expense in our San Jose research and development organization.

Selling, general, and administrative expenses increased to $7.4 million, or 17.0% of revenue, for the year ended June 30, 2000 from $5.5 million, or 18.5% of revenue, for the year ended June 30, 1999. The 33.8% increase in selling, general, and administrative expenses reflects higher sales commissions associated with higher revenue levels and additional sales and management personnel. As a percentage of revenue, selling, general, and administrative expenses were 1.5% lower, reflecting the allocation of certain costs over a higher revenue base.

The fiscal year ended June 30, 2000 includes an $855,000 charge for the write-off of in-process research and development associated with our October 1999 acquisition of ASL. (See Note 3 of notes to consolidated financial statements.) In addition, the amortization of goodwill and other acquired intangibles related to the ASL transaction resulted in total amortization expense of $502,000 for the remaining eight months of fiscal 2000.

We generated operating income of $460,000 for the year ended June 30, 2000 compared to $1.6 million for the year ended June 30, 1999. The reduction in operating income primarily reflects the write-off of in-process research and development, amortization of goodwill and other acquired intangible assets, higher research and development expenses, and higher sales commissions associated with higher revenue levels. These expenses were partially offset by higher gross margins.

Income taxes of $120,000 for the year ended June 30, 2000 reflect U.S. alternative minimum taxes and foreign taxes associated with the company's Taiwanese operations. The U.S. federal net operating and research credit carryforwards totaled $800,000 and $1.2 million, respectively, at the end of fiscal 2000 and 1999, and will expire beginning 2012 through 2020 if not utilized.

During fiscal 2000, we recorded equity losses of $2,712,000, representing our share of losses incurred by Foveon. The total amount of the equity losses recognized were determined on the basis of our ownership interest in Foveon's convertible preferred shares and our proportionate share of new funds provided to Foveon in exchange for convertible promissory notes and have been limited to the maximum of our total investment. Accordingly, the carrying value of our investment in Foveon has been reduced to zero at the end of fiscal 2000.

Purchased In-Process Research and Development

Purchased in-process research and development, or IPRD, of $855,000 in fiscal 2000 represents the write-off of in-process inductive position sensing technology associated with our acquisition of ASL.

We used available information to calculate the amounts allocated to IPRD. In calculating IPRD, we used established valuation techniques accepted in the high-technology industry. These calculations gave consideration to relevant market sizes and growth factors, expected industry trends, the anticipated nature and timing of new product introductions by us and our competitors, individual product sales cycles, and the estimated lives of each of the products' underlying technology. The value of the IPRD reflects the relative value and contribution of the acquired research and development. We used a discount rate of 30% to compute the net present value of the future cash flows for the purpose of determining the value attributed to IPRD. We also gave consideration to the IPRD's stage of completion, which was estimated

to be approximately 75% complete at the time of the acquisition, the complexity of the work completed to date, the difficulty completing the remaining development, costs already incurred, and the projected cost to complete the project in determining the value assigned to IPRD. At the time of the acquisition, the Spiral technology had not reached technological feasibility and the IPRD did not have alternative future uses. At the time of acquisition of ASL, the estimated cost to complete the project was estimated to be $6.0 million.

The value assigned to developed technologies related to the acquisition was based upon discounted cash flows related to the future products' projected income streams. Elements of the projected income stream included revenue, cost of sales, selling, general, and administrative expenses, and research and development expenses. The discount rates used in the present value calculations were generally derived from a weighted average cost of capital, adjusted upward to reflect the additional risks inherent in the development life cycle, including the useful life of the technology, profitability levels of the technology, and the uncertainty of technology advances that were known at the date of the acquisition.

The overall valuation methodology assumed a core technology leverage factor of 15%, a projection of three-year revenue stream beginning fiscal 2001, and a discount factor of 30% to determine the present value of future cash flows.

Given the uncertainties of the commercialization process, no assurance can be given that deviations from our estimates will not occur. At the time of the ASL acquisition, we believed there was a reasonable chance of realizing the economic return expected from the acquired in-process technology. Although we have experienced delays in completing the development of IPRD, our assumptions to compute the value of IPRD have generally been reasonable and consistent with our actual results. There can be no assurance, however, that any project will achieve commercial success because of the risk associated with the realization of benefits related to commercialization of an in-process project due to rapidly changing customer needs, the complexity of the technology, and growing competitive pressures. Failure to successfully commercialize an in-process project would result in the loss of the expected economic return inherent in the fair value allocation. Additionally, the value of our intangible assets acquired may become impaired.

We expect to continue the development of the Spiral technology and derivative commercial products and believe that there is a reasonable chance of successfully completing these development efforts. There is, however, risk associated with the completion of the in-process projects, and there can be no assurance that any project will achieve either technological or commercial success.

Quarterly Results of Operations

The following table sets forth our unaudited quarterly results of operations for the eight quarters in the period ended June 30, 2001. You should read the following table in conjunction with the financial statements and related notes contained elsewhere in this prospectus. We have prepared this unaudited information on the same basis as our audited financial statements. This table includes all adjustments, consisting only of normal recurring adjustments, that we consider necessary for a fair presentation of our financial position and operating results for the quarters presented. You should not draw any conclusions about our future results from the results of operations for any quarter.

	Three Months Ended					
September 30, 1999	**December 31, 1999**	**March 31, 2000**	**June 30, 2000**	**September 30, 2000**	**December 31, 2000**

			(unaudited) (in thousands)			
Net revenue	$ 9,330	$ 12,411	$ 10,123	$11,583	$ 13,988	$ 18,441
Cost of revenue(1)	5,368	7,285	6,024	6,975	8,959	13,178
Gross margin	3,962	5,126	4,099	4,608	5,029	5,263
Operating expenses:						
Research and development(1)	1,376	1,819	2,387	2,804	2,792	2,848
Selling, general, and administrative(1)	1,728	2,017	1,735	1,927	1,961	2,276
Acquired in-process research and development	—	855	—	—	—	—
Amortization of goodwill and other acquired intangible assets	26	151	214	214	197	195
Amortization of deferred stock compensation	—	—	—	82	154	158
Total operating expenses	3,130	4,842	4,336	5,027	5,104	5,477
Operating income (loss)	832	284	(237)	(419)	(75)	(214)
Interest and other income, net	89	105	112	59	102	35
Income (loss) before income taxes and equity losses	921	389	(125)	(360)	27	(179)
Provision (benefit) for income taxes	51	89	42	(62)	26	5
Equity in losses of an affiliated company	—	(720)	(1,067)	(925)	—	—
Net income (loss)	$ 870	$ (420)	$ (1,234)	$ (1,223)	$ 1	$ (184)

[Additional columns below]

[Continued from above table, first column(s) repeated]

	Three Months Ended	
	March 31, 2001	June 30, 2001
	(unaudited) (in thousands)	
Net revenue	$ 19,638	$ 21,631
Cost of revenue(1)	13,922	14,752
Gross margin	5,716	6,879
Operating expenses:		
Research and development(1)	2,665	3,285
Selling, general, and administrative(1)	2,334	2,535
Acquired in-process research and development		
Amortization of goodwill and other acquired intangible assets	188	204
Amortization of deferred stock compensation	166	119
Total operating expenses	5,353	6,143
Operating income (loss)	363	736
Interest and other income, net	35	8
Income (loss) before income taxes and equity losses	398	744
Provision (benefit) for income taxes	5	144
Equity in losses of an affiliated company	—	—

Net income (loss)	$ 393	$ 600

(1) Excludes the amortization of deferred stock compensation as follows (unaudited) (in thousands):

	Three Months Ended					
	September 30, 1999	December 31, 1999	March 31, 2000	June 30, 2000	September 30, 2000	December 31, 2000
Cost of revenue	$ —	$ —	$ —	$ —	$ 2	$ 3
Research and development	—	—	—	—	10	50
Selling general and administrative	—	—	—	82	142	105
	$ —	$ —	$ —	$ 82	$ 154	$ 158

[Additional columns below]

[Continued from above table, first column(s) repeated]

	Three Months Ended	
	March 31, 2001	June 30, 2001
Cost of revenue	$ 11	$ 7
Research and development	55	47
Selling general and administrative	100	65
	$ 166	$ 119

Revenue has increased in each of the last eight quarters, except for the quarter ended March 31, 2000. Revenue in our March quarters traditionally has been lower than in our December quarters, reflecting the seasonality of consumer spending in the second half of the year, resulting in part from back to school and holiday purchases. The quarter ended March 31, 2001 did not reflect our normal trend as a result of the higher average selling prices associated with revenue from our dual pointing solutions. In addition to this normal seasonality, we believe that revenue in the December 1999 quarter was higher as a result of customers building inventories in expectation of potential supply-chain problems associated with the widely publicized year 2000 computer issue. Beginning in April 2000, revenue growth also increased as a result of shipments of our dual pointing solutions, which have higher average selling prices because of the inclusion of two interface solutions rather than one. In the September 2000 quarter, we began shipping interface solutions for the iAppliance markets, which solutions represented approximately 2.5% of our total revenue for the year ended June 30, 2001. The initial applications are touch sensing interfaces for Internet appliances, which allow for Internet access and sending and receiving e-mail, and set-top-boxes used for Internet access and home entertainment, which utilize the end user's television as the monitor.

Gross margin as a percentage of revenue declined over the six quarters ending December 31, 2000, as we continued to grow market share. This reflects the combination of generally lower prices, higher materials and components costs resulting from general market supply-demand imbalances, increasing

production costs, and the introduction of our initial lower-margin dual pointing solutions, partially offset by our incremental cost-improvement programs. The significant decline in gross margin percentage in the December 2000 quarter was primarily a result of a much higher percentage of our sales being lower- margin dual pointing solutions. The increase in gross margin percentage in the last two quarter reflects the impact of our cost-improvement programs, particularly those related to our dual pointing solutions, a general price increase we announced in the December 2000 quarter, lower production costs, and lower materials and components costs resulting from an easing of the supply-demand pressures we experienced in the second half of calendar 2000. We anticipate shipping our proprietary dual pointing solution in the September 2001 quarter, which should begin to have an additional positive impact on gross margins in future periods as shipping volumes increase. We are currently developing our next generation ASIC and planning additional cost improvement programs that we expect will reduce our overall product costs once fully developed, qualified by our OEM customers, and implemented in our manufacturing process, which we expect to begin phasing in during fiscal 2002.

Operating expenses, exclusive of the non-recurring charge for in-process research and development in the December 1999 quarter, amortization of goodwill and other acquired intangible assets, and deferred stock compensation, have generally increased over the eight quarters ended June 30, 2001, primarily reflecting the combination of the following four factors: (1) increased staffing in all departments to support our overall business growth; (2) increased spending on research and development to continue to improve our existing technologies and develop new technologies for new product applications, including ClearPad and Spiral; (3) increased selling costs related to the higher revenue levels; and (4) increased management and infrastructure spending to support our planned growth and penetration into new markets.

Liquidity and Capital Resources

Since our inception, we have financed our operations through cash flows from operations, private sales of securities and, to a lesser extent, capital equipment financing.

During fiscal 2001, net cash used in operating activities totaled $2.3 million, primarily reflecting increased working capital, excluding cash and capital lease and equipment financing obligations, of $5.2 million related to our higher operating levels, partially offset by non-cash adjustments for depreciation, amortization, and stock compensation of $2.5 million. We expect that accounts receivable and inventory will continue to increase if our revenue continues to grow and that we will continue to increase our investment in capital assets to expand our business. During fiscal 2000, we used $40,000 in cash from operating activities compared to generating $301,000 in fiscal 1999. In fiscal 2000, net cash used in operations of $40,000 reflects our net loss of $2.0 million, offset by the combination of the following items: (1) adjustments for non-cash charges, including our proportionate share of equity losses in an affiliated company, Foveon, which totaled $2.7 million, a write-off of $855,000 of in-process research and development, $1.2 million of amortization and depreciation, and $137,000 of stock based compensation; and (2) increases in accounts receivable, inventories, and accounts payable of $3.7 million, $1.5 million, and $2.5 million, respectively, relating to our increased business activities. In fiscal 1999, net cash generated from operations of $301,000 reflects our net income of $1.9 million, adjusted for non-cash depreciation and amortization of $535,000, partially offset by increased working capital, excluding cash and capital lease and equipment financing obligations, of $2.3 million, primarily reflecting increases in accounts receivable of $1.9 million and reductions in accounts payable of $802,000 and inventory of approximately $297,000.

Investing activities typically relate to purchases of capital assets, which totaled $981,000 for fiscal 2001, $1.1 million for fiscal 2000, and $315,000 for fiscal 1999. In addition, we advanced $2.7 million in fiscal 2000 in the form of convertible promissory notes to Foveon, an affiliated company, and invested $1.5 million in cash in the October 1999 acquisition of ASL, which together with the capital asset purchases referred to above resulted in total cash used in investing activities of $5.3 million in fiscal 2000. We also issued 652,025 shares of our common stock in connection with the acquisition of ASL and are obligated to issue up to an additional 200,000 shares if certain products incorporating ASL technology are sold within two years of the acquisition. In connection with the acquisition of the sales representative workforce of our

former outside sales agent in Taiwan, we issued 37,500 shares of our common stock and are obligated to issued an additional 37,500 shares if certain covenants are fulfilled.

Financing activities over the prior three years have generally been related to the proceeds obtained from the financing of capital assets, offset by the related repayments under those transactions, plus the proceeds from the exercise of vested stock options. Net cash provided by financing activities for fiscal 2001 was $536,000, reflecting net usage of cash from equipment financing of $71,000 offset by proceeds from stock option exercises totaling $607,000. Net cash provided by financing activities was approximately $99,000 for fiscal 2000 and $212,000 for fiscal 1999.

Our principal sources of liquidity as of the end of fiscal 2001 consisted of $3.8 million in cash and cash equivalents and a master equipment financing agreement, dated November 28, 2000, with KeyCorp Leasing, which has $251,000 available for additional capital asset financing. The KeyCorp financing agreement is based on a 36-month term from the date KeyCorp funds capital asset purchases and an interest rate equal to approximately 250 basis points over the U.S. Treasury 18-month index at the time of funding, which is then fixed for the 36-month term. Capital assets currently financed under the KeyCorp master financing agreement total $499,000 and borrowings have an annual interest rate of 8.25%. The long- term note payable to National Semiconductor represents limited-recourse debt that is secured solely by a portion of our preferred stockholdings in Foveon, in which National Semiconductor is also an investor. We do not anticipate making any payments under the limited-recourse loan with National Semiconductor, either prior to or at maturity, unless Foveon is participating in a liquidity event, such as an initial public offering of its equity securities or a merger, through which we would be able to receive amounts in excess of the carrying amount of our $1.5 million investment.

We believe our existing cash balances, the available funds remaining under the KeyCorp master equipment lease agreement, and the net proceeds of this offering will be sufficient to meet our cash requirements at least through the next 12 months. Our future capital requirements will depend on many factors, including our rate of revenue growth, the timing and extent of spending to support product development efforts, the expansion of sales and marketing activities, the timing of introductions of new products and enhancements to existing products, the costs to ensure access to adequate manufacturing capacity, and the continuing market acceptance of our product solutions. We cannot assure you that additional equity or debt financing will be available to us on acceptable terms or at all. As of the date of this prospectus, our sources of liquidity beyond 12 months will be our then current cash balances, funds from operations, and any long-term credit facilities that we arrange. We have no other agreements or arrangements with third parties to provide us with sources of liquidity and capital resources beyond the next 12 months.

Disclosure of Market Risks

Interest rate risk

Our exposure to market risk for changes in interest rates relates primarily to our cash and cash equivalents. Due to the conservative nature of our investment portfolio, which is predicated on capital preservation and is mainly comprised of government-backed securities and investment-grade instruments, we would not expect our operating results or cash flows to be significantly affected by changes in market interest rates. We do not use our investment portfolio for trading or other speculative purposes.

The table below presents principal amounts and related weighted average interest rates by year of maturity for our investment portfolio and debt obligations (in thousands):

	2002	2003	2004	2005	2006	Thereafter	Total	Fair Value
Assets								
Cash equivalents								
Fixed rate amounts	$ 180	$ —	$ —	$ —	$ —	$ —	$ 180	$ 180

Average rate	4.6%	—	—	—	—	—	4.6%	
Variable rate amounts	$3,404	$ —	$ —	$ —	$ —	$ —	$3,404	$3,404
Average rate	7.3%	—	—	—	—	—	7.3%	
Liabilities								
Capital leases and equipment financing obligations								
Fixed rate amounts	$ 547	$ 253	$ 75	$ —	$ —	$ —	$ 875	$ 875
Average rate	8.32%	8.32%	8.32%	—	—	—	8.32%	
Note payable to related party								
Fixed rate amounts	$ —	$ —	$ —	$ —	$ —	$ 1,500	$1,500	$1,500
Average rate	—	—	—	—	—	6.0%	6.0%	

Foreign currency exchange risk

All of our sales and our expenses, except those expenses related to our U.K. and Taiwan operations, are denominated in U.S. dollars. As a result, we have relatively little exposure to foreign currency exchange risks and foreign exchange losses have been minimal to date. We do not currently enter into forward exchange contracts to hedge exposure denominated in foreign currencies or any other derivative financial instruments for trading or speculative purposes. In the future, if we feel that our foreign exchange exposure has increased, we may consider entering into hedging transactions to help mitigate that risk.

Recent Accounting Pronouncements

In July 2001, the FASB issued FAS 141 “Business Combinations” and FAS 142 “Goodwill and Other Intangible Assets”. FAS 141 eliminates the pooling-of-interests method of accounting for business combinations except for qualifying business combinations that were initiated prior to July 1, 2001. FAS 141 further clarifies the criteria to recognize intangible assets separately from goodwill. The requirements of FAS 141 are effective for any business combination accounted for by the purchase method that is completed after June 30, 2001 (i.e., the acquisition date is July 1, 2001 or after). Under FAS 142, goodwill and indefinite lived intangible assets are no longer amortized but are reviewed annually (or more frequently if impairment indicators arise) for impairment. Separable intangible assets that are not deemed to have an indefinite life will continue to be amortized over their useful lives. The Company will adopt FAS 141 and FAS 142 on July 1, 2001. The adoption is not expected to have any material adverse impact on the Company’s financial position or results of its operations.

BUSINESS

Overview

We are the leading worldwide developer and supplier of custom-designed user interface solutions for notebook computers. We currently supply approximately 61% of the touch pads used in notebook computers throughout the world. Our new pointing stick is designed to address the portion of the notebook market that uses the pointing stick as the interface solution. We estimate that approximately 55% of notebook computers use solely a touch pad interface, 29% use solely a pointing stick interface, 10% use a dual pointing interface, which consists of both a touch pad and a pointing stick, and 6% use some other type of interface. Our new pointing stick can be used with our touch pad to take advantage of the growing trend to dual pointing interface solutions. Our OEM customers include Acer, Apple, Compaq, Dell, Gateway, Hewlett-Packard, Intel, Samsung, and Sharp.

We believe our extensive intellectual property portfolio, our experience in providing interface solutions to OEMs, and our proven track record of growth in our expanding core notebook computer interface business position us to be a key technological enabler for multiple applications in many fast-growing markets. Based on these strengths, we are addressing the opportunities created by the growth of a new class of mobile computing and communications devices, which we call iAppliances. These iAppliances include PDAs and smart phones, as well as a variety of mobile, handheld, wireless, and Internet devices. We believe our existing technologies, our new product solutions, and our emphasis on ease of use, small size, low power consumption, advanced functionality, durability, and reliability will enable us to penetrate the markets for iAppliances.

Industry Overview

The Notebook Computer Market

Trends toward mobile computing and communications, supported by technological advances in computer processing power, continued development of the Internet and network infrastructure, and improved remote connectivity, are driving significant growth of the notebook computer market. Notebook computers provide the functionality of a desktop PC, and their small form factor enables portable computing with remote access and connectivity to the Internet and other networks. Notebook computers can be used in conjunction with a full-size monitor, keyboard, and docking station to provide an experience comparable to a desktop PC. For these reasons, the corporate market continues to replace desktop PCs with notebook computers, enabling workers to be more productive away from the office. At the same time, the availability of notebook computers with increased processing power, longer battery life, larger displays, and thinner and lighter designs is prompting companies to upgrade their notebook computers to higher performance models. These trends are the primary drivers for the growth of notebook computer sales in the corporate market.

In the consumer market, notebook computers also are replacing desktop PCs as small-office, home-office, and other individual users demand the flexibility and benefits of mobile computing and connectivity. Other factors promoting this replacement trend include the smaller cost differential between notebook computers and desktop PCs and a shorter lag time for technology migration from desktop PCs to notebook computers. In addition, the continued development of wired dormitories, classrooms with Internet connections, and wireless local area networks in schools and universities are driving significant growth of notebook computer sales in the education market.

Another factor contributing to higher relative growth of notebook computers versus desktop PCs is the difference in product life cycles. Desktop PCs generally have product lifecycles of approximately three years, while product lifecycles are shorter for notebook computers, owing to technological advances, harsh usage patterns that often test durability and reliability, theft, and loss. As a result, individuals and corporations

generally replace and upgrade notebook computers more frequently than desktop PCs.

As a result of these factors, notebook computers are experiencing rapid growth in both the corporate and consumer markets, resulting in market share gains at the expense of desktop PCs. According to IDC, worldwide shipments of notebook computers increased 30.6% for calendar year 2000 compared to 12.2% for desktop PCs during the same period. IDC estimates that the market for notebook computers will grow from 26.0 million units in 2000 to 47.3 million units in 2004, a compound annual growth rate of 16.1%. This compound annual growth rate of notebook computers exceeds that of desktop PCs, which are estimated to grow at 9.0% annually during the same period.

The Emerging iAppliance Markets

Individuals increasingly desire the ability to access information, such as e-mail, corporate intranets, the Internet, calendars, and databases, when they are away from their homes or offices. This demand for universal access to information is being driven by the desire for increased productivity and convenience. These factors are prompting the development of a new generation of intelligent and connected devices that are intended to be easy to use, enhance productivity, and provide convenience at low cost. Technological advances, the convergence of mobile computing and communications, and the growth of the Internet have collectively served as a catalyst for the development of these devices, which we refer to as iAppliances. iAppliances exist in many form factors and have broad applications, including personal information management, consumer entertainment, home networking and automation, automotive controls and displays, and other Internet access terminals located away from the home or office. Examples of iAppliances include PDAs, mobile handheld computing devices, smart phones, consumer Web terminals, e-mail terminals, Internet gaming devices, and Internet screenphones. iAppliances allow users to more easily and intuitively access, manage, and store information anytime and anywhere. iAppliances are generally smaller, lighter weight, easier to use, and in the case of mobile iAppliances, consume less battery power than PCs. These benefits are driving significant growth of the iAppliance markets.

Today, the markets for iAppliances are in their infancy and still evolving. iAppliances, however, are expected to achieve widespread consumer acceptance. Industry experts believe that the proliferation of iAppliances that address disparate functions will cause this market to grow rapidly. Unlike the market for PCs in which users typically operate a single PC, industry experts believe that the markets for iAppliances will be characterized by multiple devices for each person. Furthermore, iAppliances have begun to generate interest from people that do not actively use PCs.

In addition, a combination of technological advances and infrastructure development, such as the deployment of third-generation broadband wireless services, advances in device miniaturization, and the adoption of wireless protocols, such as Bluetooth and 802.11b, which increases the users' ability to access information anytime and anyplace, will accelerate the demand for iAppliances. Consequently, the iAppliance markets are anticipated to grow significantly faster than the market for PCs. IDC estimates that the markets for iAppliances will grow from 28.0 million units in 2000 to 89.0 million units in 2004, a compound annual growth rate of 33.5%. Within these markets, IDC forecasts the smart handheld devices segment to grow from 3.3 million units in 2000 to 33.2 million units in 2004, a compound annual growth rate of 77.4%.

Interface Solutions

In the desktop PC market, the keyboard and the mouse have been adopted as universal user interface devices. Notebook computers, however, require highly integrated interfaces that are compact and easy to use. As a result, the traditional PC mouse has largely been replaced by the touch pad and by the pointing stick in notebook computers. A touch pad allows the user to navigate the screen using a finger or stylus on a touch-sensitive pad. A pointing stick allows the user to navigate the screen by using a finger to apply pressure on a small stick device. Each of these interfaces provides a different user experience that appeals to a range of user preferences. We estimate that approximately 55% of notebook computers use solely a touch pad interface, 29% use solely a pointing stick interface, 10% use a dual pointing interface, which consists of both a touch pad and a pointing stick, and 6% use some other type of interface.

Recently, OEMs have developed and introduced notebook computers that incorporate dual pointing solutions, containing both a touch pad and a pointing stick. Dual pointing solutions provide users with enhanced flexibility and alternative means of interacting with a notebook computer. Dual pointing solutions are gaining popularity with corporate information technology departments because of their ability to satisfy most user preferences with a single notebook computer. In addition, by purchasing notebook computers with dual pointing solutions, corporate information technology departments can consolidate vendor relationships and technical support.

The vast array of functionality incorporated in iAppliances and their emphasis on universal access to information, including through an Internet or other network connection, has resulted in many different form factors, many of which are too small to accommodate either a keyboard or a mouse. As a result, iAppliances require innovative interface solutions to input, access, and manage information. A variety of interfaces has been developed and incorporated in iAppliances to facilitate user interaction with these devices. For example, many handheld PDAs utilize a touchscreen interface as the primary means to input, manage, and retrieve information, while mobile phones generally utilize a numeric keypad and a push-button option menu, or in some cases, a dial to scroll through option menus. Users are finding through experience that certain interfaces are more suitable for specific functions while severely limiting for other functions. As a result, as OEMs compete for market share and consumer acceptance, the interface solution represents one of the primary means to differentiate iAppliances among competing products. The optimum interface solution must operate intuitively and be easy to use; facilitate portability in terms of size, weight, and power usage; offer advanced features to enhance user experience; and satisfy consumer demand for reliability and durability.

The Synaptics Solution

We develop, acquire, and enhance interface technologies that improve the way people interact with mobile computing and communications devices. Our innovative and intuitive interfaces accommodate many diverse platforms. Our technologies include an extensive array of ASIC, firmware, software, pattern recognition, and touch sensing technologies.

Through our technologies, we seek to provide our customers with customized solutions that address their individual design issues and result in high-performance, feature-rich, and reliable interface solutions. Our new TouchStyk enables us to address the pointing stick and dual pointing portions of the notebook computer market, and our new ClearPad and Spiral solutions address the iAppliance markets. We believe our interface

solutions offer the following characteristics:

- *Ease of Use.* Our interface solutions offer the ease of use and intuitive interaction that users demand.
- *Small Size.* The small, thin size of our interface solutions enables our customers to reduce the overall size and weight of their products in order to satisfy consumer demand for portability.
- *Low Power Consumption.* The low power consumption of our interface solutions enable our customers to offer products with longer battery life or smaller battery size.
- *Advanced Functionality.* Our interface solutions offer many advanced features to enhance user experience.
- *Reliability.* The reliability of our interface solutions satisfies consumer demand for dependability, which is a major component of consumer satisfaction.
- *Durability.* Our interface solutions withstand repeated use, severe physical treatment, and temperature fluctuations while providing a superior level of performance.

We believe these characteristics will enable us to maintain our leadership position in the notebook computer market and will enhance our position as a technological enabler of iAppliances and a differentiator for OEMs of these devices.

Our emphasis on technological leadership and customized-design capabilities positions us to provide unique interface solutions that address specific customer requirements. Our long-term working relationships with large, global OEMs provide us with experience in satisfying their demanding design specifications and other requirements. Our custom product solutions provide OEMs with numerous benefits, including the following:

- customized, modular integration;
- reduced product development costs;
- shorter product time to market;
- compact and efficient platforms;
- improved product functionality and utility; and
- product differentiation.

We work with our customers to customize our solutions in order to meet their design requirements. This collaborative effort reduces the duplication and overlap of investment and resources, enabling our OEM customers to devote more time and resources to the market development for these products.

We utilize capacitive and inductive technologies rather than traditional resistive technology in our product solutions. Unlike resistive technology, our capacitive technology requires no activation force, thereby permitting easy movement across the touch surface. Our capacitive technology also uses no moving parts and can be integrated with both curved and flat surfaces.

Capacitive and inductive technologies provide additional key benefits over resistive technology. Capacitive and inductive sensors can be fabricated without the air or liquid gap required by resistive technology, reducing undesirable internal reflections and the power requirements for the LCD backlight, thereby extending the battery life of small handheld devices. Capacitive and inductive technologies also allow much thinner sensors than resistive technology, allowing for slimmer, more compact, and unique industrial designs.

Our Strategy

Our objective is to continue to enhance our position as the world's leading supplier of interface solutions for the notebook computer market and to become a leading supplier of interface solutions for the emerging high-growth iAppliance markets. Key aspects of our strategy to achieve this objective include the following:

Extend Our Technological Leadership

We plan to utilize our extensive intellectual property portfolio and technological expertise to provide competitive advantages, extend the functionality of our product solutions, and offer innovative product solutions to our customers across multiple market segments. We intend to continue to utilize our technological expertise to reduce the overall size, weight, cost, and power consumption of our interface solutions while increasing their applications, capabilities, and performance. We plan to expand our research and development efforts through strategic acquisitions and alliances, increased expenses, and the hiring of additional engineering personnel. We believe that these efforts will enable us to meet customer expectations and to achieve our goal of supplying on a timely and cost-effective basis the most advanced, easy-to-use, functional interface solutions integrating touch, handwriting, vision, and voice capabilities.

Enhance Our Leadership Position in the Notebook Computer Market

We intend to continue to introduce market-leading interface solutions in terms of performance, functionality, size, and ease of use. Our new TouchStyk will enable us to address the pointing stick and expanding dual pointing segments of the notebook interface market. Our new electronic signature, or e-signature, capabilities, pen computing applications, multi-finger navigation, and scroll strip products are

designed to provide additional functionality that results in competitive advantages. Our ultra thin TouchPad solution allows our customers to produce even thinner notebook computers.

Capitalize on Growth of the iAppliance Markets

We intend to capitalize on the growth of the iAppliance markets brought about by the convergence of computing and communications. We plan to offer innovative, easy-to-use interface solutions that address the evolving portability, connectivity, and functionality requirements of these new markets. We plan to offer these solutions to existing and potential OEM customers as a means to increase the functionality, reduce the size, lower the cost, and enhance the user experience of our customers' products. We plan to utilize our existing technologies as well as aggressively pursue new technologies as these markets evolve and demand new solutions.

Emphasize and Expand Customer Relationships

We plan to emphasize and expand our strong and long-lasting customer relationships and to provide the most advanced interface solutions for our customers' products. We recognize that our interface solutions enable our customers to deliver a positive user experience and to differentiate their products from those of their competitors. We continually attempt to enhance the competitive position of our customers by providing them with innovative, distinctive, and high-quality interface solutions on a timely and cost-effective basis. To do so, we work continually to improve our productivity, to reduce costs, and to speed the delivery of our interface solutions. We endeavor to streamline the entire design and delivery process by maintaining an ongoing design, engineering, and production improvement effort. We also devote considerable effort to support our customers after the purchase of our interface solutions.

Pursue Strategic Relationships and Acquisitions

We intend to develop and expand strategic relationships to enhance our ability to offer value-added customer solutions, address new markets, rapidly gain market share, and enhance the technological leadership of our product solutions. Our strategic relationships with Three-Five Systems and Densitron, leading suppliers of custom designed display modules, provides for the joint development and marketing of touch screen LCD products and the integration of our Spiral and ClearPad product solutions with their LCD display drivers for use in cellular phones, PDAs, and other electronic devices. Our strategic relationship with Fidelica Microsystems, a leading developer of fingerprint authentication solutions, provides for the development and marketing of fingerprint authentication hardware and software for use in the personal computer market. We intend to enter into additional strategic relationships with other leading companies in our target markets. We also intend to acquire companies in order to expand our technological expertise and to establish or strengthen our presence in selected target markets.

Continue Virtual Manufacturing

We plan to expand and diversify our production capacity through third-party relationships, thereby strengthening our virtual manufacturing platform. This strategy results in a scalable business model; enables us to concentrate on our core competencies of research and development, technological advances and product design; and reduces our capital expenses. Our virtual manufacturing strategy allows us to maintain a variable cost model, in which we do not incur most of our manufacturing costs until our product solutions have been shipped and billed to our customers.

Products

We offer customers in the PC and iAppliance markets user interface solutions that provide competitive advantages. Our family of product solutions allows our customers to solve their interface needs and differentiate their products from those of their competitors.

The following table sets forth certain information relating to our products.

Product	Description	Status	Applications
TouchPad	Small, touch-sensitive pad that senses the position of a person's finger on its surface through the measurement of capacitance	Commercially available	Notebooks, iAppliances
TouchStyk	Self-contained, easily integrated module that uses the same capacitive technology as our TouchPad	Commercially available	Notebooks, iAppliances
Dual Pointing Solution	Combined solution of TouchPad and TouchStyk	Commercially available	Notebooks
QuickStroke	Recognition technology that combines our software with our TouchPad	Commercially available	Notebooks, iAppliances

ClearPad	Customizable touch screen solution with a clear thin sensor that can be placed over any viewable surface	Prototype completed	Notebooks, iAppliances
Spiral	Thin, lightweight, low power, inductive pen-sensing solution	In development	iAppliances

TouchPad™

We currently supply approximately 61% of the touch pads used in notebook computers throughout the world. Our TouchPad, which takes the place of a mouse, is a small, touch-sensitive pad that senses the position of a person's finger on its surface through the measurement of capacitance. Our TouchPad provides the most accurate, comfortable, and reliable method to provide screen navigation, cursor movement, and a platform for interactive input and allows customers to provide a stylish, simple, user-friendly, and intuitive terminal for both the consumer and professional markets. Our TouchPads offer various advanced features, including the following:

- *Virtual scrolling.* This feature enables the user to scroll through any document by swiping a finger along the side or bottom of the TouchPad.
- *Customizable tap zones.* These zones permit separate portions of the TouchPad to be used to simulate mouse clicks, launch applications, and perform other select functions.
- *Palm Check.* Palm Check eliminates false activation when a person's palm accidentally rests on the TouchPad.
- *Edge Motion.* This permits cursor movement to continue when a user's finger reaches the edge of the TouchPad.
- *Tapping and dropping of icons.* This feature allows the user to simply tap on an icon in order to drag it, rather than being forced to hold a button down in order to drag an icon.
- *Multi-finger gestures.* This feature allows the user to designate specific actions when more than one finger is used on the TouchPad.

Our TouchPads are available in a variety of sizes and can be designed to meet the specifications of our customers. Customized driver software ensures the availability of specialized features.

We also have developed e-signature capabilities for our TouchPads in conjunction with Silanis Technology. This allows users to sign their names directly on the TouchPad itself, providing a reliable and binding e-signature solution without additional hardware costs.

Utilizing our TouchPad technology, we recently introduced our scroll strip, a touch-sensitive device similar to a TouchPad. Our initial applications will be to mount the scroll strip within keyboards, external mice, and portable communication devices. Users can take advantage of the scroll strip to easily scroll up and down Web pages or word processing documents. Future applications for the scroll strip may include cellular phones and other communications and computing devices.

A new generation of our TouchPad responds to both finger touch and stylus-pointing devices. This solution adds stylus capabilities to our TouchPad so notebook computers and other devices that use finger touch input can now take advantage of pen computing applications, such as drawing, signature capture, and handwriting recognition, without sacrificing the accurate, comfortable finger input capability of the TouchPad.

TouchStyk™

We have introduced TouchStyk, our pointing stick interface solution. TouchStyk is a self-contained, easily integrated module that uses the same capacitive technology as our TouchPad. TouchStyk is enabled with press-to-select and tap-to-click capabilities and can be easily integrated into multiple computing and communications devices. We have reduced the number of components needed to control the pointing device, allowing the electronics for TouchStyk to be mounted directly on the printed circuit board, or PCB, of the unit. In addition, restricting analog signals to the module greatly reduces exposure to electromagnetic interference, which provides for greater pointing accuracy and prevents the pointer from drifting when not in use.

Our TouchStyk can operate either with our proprietary algorithms or algorithms licensed from IBM. This allows OEMs to select the algorithms of their choice while still gaining the advantages of our pointing stick solution.

Our modular approach allows OEMs to include our TouchPad, our TouchStyk, or a combination of both interfaces in their notebook computers. We have one design win for our TouchStyk with one OEM customer and are in qualification with two other OEM customers.

Dual Pointing Solution

Our dual pointing solution offers both a touch pad and a pointing stick in a single notebook computer, enabling users to select their interface of choice. Our dual pointing solution also provides the end user the ability to use both interfaces simultaneously. Our dual pointing solution provides the following advantages:

- cost-effective and simplified OEM integration;

- simplified OEM product line since one device contains both solutions;
- single-source supplier, which eliminates compatibility issues; and
- end user flexibility since one notebook can address both user preferences.

We have developed two solutions for use in the dual pointing market. Our first solution integrates all the electronics for controlling a third-party resistive strain gauge pointing stick onto our TouchPad PCB. This solution simplifies OEM integration by eliminating the need to procure the pointing stick electronics from another party and physically integrate them into the notebook. Our second dual pointing solution uses our TouchStyk rather than a third-party pointing stick, and offers the same simplified OEM integration. The second solution is a completely modular design, allowing OEMs to offer TouchPad-only, TouchStyk-only, or dual pointing on a build-to-order basis.

ClearPad™

ClearPad, our innovative and customizable touch screen solution, consists of a clear thin sensor that can be placed over any viewable surface, including display devices, such as LCDs. ClearPad is controlled by a small electronics module, which can be located remotely from the sensor. Similar to our traditional

TouchPad, our ClearPad has various distinct advantages, including light weight; low profile form factor; high reliability, durability, and accuracy; and low power consumption. In addition, ClearPad enables visual information display in conjunction with touch commands.

The size and shape of both the sensor surface and electronics module can be customized for applications for many requirements. ClearPad can be mounted on any curved surface, resulting in new opportunities for industrial design. In applications with extreme space constraints, the electronic module can be integrated into an existing PCB. ClearPad also can emulate physical buttons or slider switches displayed on an active display device or printed on an underlying surface.

ClearPad is an extension of our capacitive TouchPad technologies. Standard resistive touch screens include an air gap, causing significant internal reflections that degrade the quality of the display. When used as a touch screen, ClearPad eliminates the internal air gap present in resistive touch screens, significantly decreasing internal reflections and their associated impact on display quality. This makes ClearPad an excellent solution for use outdoors and for devices with color displays.

ClearPad is well suited for widespread application in the iAppliance markets. These applications include the following:

- PDAs
- smart phones
- smart handheld devices
- Web terminals
- Internet devices
- e-mail terminals
- automotive controls and displays
- interactive games and toys

We have used our ClearPad technology to develop a product solution that replaces the touch pad in notebook computers. Our solution consists of a ClearPad mounted over an LCD display. This solution provides all of the features of a standard touch pad while providing information content and significant additional features. We have developed this solution with a USB interface for significant and rapid data transfer and easy integration into notebook computer designs.

Spiral™

Spiral is a thin, lightweight, low power, inductive pen-sensing solution. The Spiral sensor lies behind an LCD screen, effectively permitting 100% light transmissivity and lower overall power consumption resulting from reduced backlighting requirements. Spiral uses a patented inductive coupling technology that offers the unique feature of proximity sensing to measure the precise position of the tip of the pen to be measured relative to a pen-based device. Spiral also has a high tolerance to user abuse. Spiral combines 100% light transmissivity, high accuracy, high-noise immunity, and a passive stylus into a solution that provides alternatives for richer user interfaces.

We anticipate that Spiral will be used in new markets that require high-quality pen-based solutions. The applications in the iAppliance markets are expected to be similar to those of ClearPad.

QuickStroke®

QuickStroke provides a fast, easy, and accurate way to input Chinese characters. Using our recognition technology that combines our patented software with our TouchPad, QuickStroke can recognize handwritten, partially finished Chinese characters, thereby saving considerable time and effort. Our QuickStroke operates with our TouchPad or our stand-alone touch pad and can be integrated into notebook computers, keyboards, and a host of stand-alone devices that use either a pen or a finger.

Our patented Incremental Recognition Technology™ allows users to simply enter the first few strokes of a Chinese character and QuickStroke accurately interprets the intended character. Since the typical Chinese character consists of an average of 13 strokes, QuickStroke technology saves considerable time and effort. QuickStroke provides a solution to enhance Chinese communication for business and personal use.

Technologies

We have developed and own an extensive array of ASIC, firmware, software, pattern recognition, and touch sensing technologies. With more than 58 patents issued and 24 patents pending, we continue to develop technology in those areas. We believe these technologies and the related intellectual property create significant barriers for competitors and allow us to provide interface solutions in a variety of high-growth market segments.

Our broad line of interface solutions currently is based upon the following key technologies:

- capacitive position sensing technology;
- capacitive force sensing technology;
- transparent capacitive position sensing technology;
- inductive position sensing technology;
- pattern recognition technology;
- mixed signal very large scale integrated circuit, or VLSI, technology; and
- proprietary microcontroller technology.

In addition to these technologies, we have the core competency of developing software that provides unique features, such as virtual scrolling, customizable tap zones, Palm Check, Edge Motion, tapping and dragging of icons, and multi-finger gestures. In addition, our ability to integrate all of our products to interface with major operating systems, including Windows 98, Windows 2000, Windows NT, Windows CE, Mac OS, Pocket PC, Palm OS, Symbian, UNIX, and LINUX, provides us with a key competitive advantage.

Capacitive Position Sensing Technology. This technology provides a method for sensing the presence, position, and contact area of one or more fingers or a conductive stylus on a flat or curved surface, such as our TouchPad. Our technology works with very light touch and provides highly responsive cursor motion and scrolling. It uses no moving parts, can be embedded in a tough plastic coating, and is extremely durable.

Capacitive Force Sensing Technology. This technology senses the direction and magnitude of a force applied to an object. The object can either move when force is applied, like a typical joystick used for gaming applications, or it can be isometric, with no perceptible motion during use, like our TouchStyk. The primary competition for this technology is resistive strain gauge technology. Resistive strain gauge technology requires electronics that can sense very small changes in resistance, presenting significant challenges to the design of that circuitry, including sensitivity to electrical noise and interference. Our electronic circuitry determines the magnitude and direction of an applied force, permits very accurate sensing of tiny changes in capacitance, and minimizes interference from electrical noise.

Transparent Capacitive Position Sensing Technology. This technology allows us to build transparent sensors for use with our capacitive position sensing technology, such as in our ClearPad. It has all the advantages of our capacitive position sensing technology and allows for visual feedback when incorporated with a display device like an LCD. Our technology never requires calibration, does not produce undesirable internal reflections, and has reduced power requirements, allowing for longer battery life.

Inductive Position Sensing Technology. This technology provides a method for sensing the presence and position, in three dimensions, of a pen on surfaces like the touch screen used in smart handheld devices. The sensor board can be placed behind the display screen, such as an LCD, thus eliminating any undesirable reflections or transmissivity losses and the need for backlighting, which enhances battery life. This technology could be used in the future for other position sensing applications.

Pattern Recognition Technology. This technology is a set of software algorithms for converting real-world data, such as handwriting, into a digital form that can be manipulated within a computer, such as

our QuickStroke product and gesture decoding for our TouchPad and TouchStyk products. Our technology provides reliable handwriting recognition and facilitates signature verification.

Mixed Signal VLSI Technology. This is hybrid analog-digital integrated circuit technology that combines the power of digital computation with the ability to interface with non-digital real-world signals like the positioning of a finger or stylus on a surface. Our patented design techniques permit us to utilize this technology in the optimization of our core ASIC engine for all our products, which provides cost and performance advantages over our competitors.

Proprietary Microcontroller Technology. This technology consists of proprietary 16-bit microcontroller cores embedded in the digital portion of our mixed signal ASIC and optimized for position sensing tasks. Our embedded microcontroller provides great flexibility in customizing product solutions, which eliminates the need to design new circuitry for each new application.

Competing Technology

Many interface solutions currently utilize resistive sensing technology. Resistive sensing technology consists of a flexible membrane stretched above a flat, rigid, electrically conductive surface. When finger or stylus pressure is applied to the membrane, it deforms until it makes contact with the rigid layer below, at which point attached electronics can determine the position of the finger or stylus. Since the flexible membrane is a moving part, it is susceptible to mechanical wear and will eventually suffer degraded performance. Due to the way that resistive position sensors work, it is not possible for them to detect more than a single finger or stylus at any given time. The positional accuracy of a

resistive sensor is limited by the uniformity of the resistive coating as well as by the mechanics of the flexible membrane. Finally, due to reduced transmissivity, or the amount of light that can pass through the display, resistive technology requires the use of a backlight, thereby reducing the battery life of the device.

Research and Development

We conduct active and ongoing research and development programs that focus on advancing our technologies, developing new products, improving design processes, and enhancing the quality and performance of our product solutions. Our goal is to provide our customers with innovative solutions that address their needs and improve their competitive positions. Our research and development concentrates on our market-leading interface technologies, especially on improving the performance of our current product solutions and expanding our technologies to serve new markets. Our vision is to develop solutions that integrate touch, handwriting, voice, and vision capabilities that can be readily incorporated into varied electronic devices.

Our research and development programs focus on the development of accurate, easy to use, feature rich, reliable, and intuitive user interface devices for the notebook market. We believe our innovative interface technologies can be applied to many diverse platforms. As a result, we are currently focusing considerable research and development efforts on interface solutions for the rapidly developing iAppliance markets. We believe the interface will be a key factor in the differentiation of iAppliance products. We anticipate that our interface technologies will enable us to provide customers with product solutions for iAppliances that have significant advantages over alternative technologies in terms of functionality, size, power consumption, durability, and reliability. We also pursue strategic acquisitions and enter into strategic relationships to enhance our research and development capabilities, leverage our technology, and shorten our time to market with new technological applications.

Our research, design, and engineering teams frequently work directly with our customers to design custom solutions for specific applications. We focus on enabling our customers to overcome technological barriers and enhance the performance of their products. We believe our efforts provide significant benefits to customers by enabling them to concentrate on their core competencies of production and marketing.

We currently employ 84 people in our technology, engineering, and product design functions in the United States and the United Kingdom. Our research and development expenses were approximately $4.9 million in fiscal 1999, $8.4 million in fiscal 2000, and $11.6 million in fiscal 2001.

Intellectual Property Rights

Our success and ability to compete depend in part on our ability to maintain the proprietary aspects of our technologies and products. We rely on a combination of patents, copyrights, trade secrets, trademarks, confidentiality agreements, and other contractual provisions to protect our intellectual property, but these measures may provide only limited protection.

We hold more than 58 patents and have more than 24 pending patent applications. These patents and patent applications cover various aspects of our key technologies, including touch sensing, pen sensing, handwriting recognition, edge motion, and virtual scrolling technologies. Our proprietary software is protected by copyright laws. The source code for our proprietary software is also protected under applicable trade secret laws.

Patents may not issue from the patent applications that we have filed or may file. Our issued patents may be challenged, invalidated, or circumvented, and claims of our patents may not be of sufficient scope or strength, or issued in the proper geographic regions, to provide meaningful protection or any commercial advantage. We have not applied for, and do not have, any copyright registration on our technologies or products. We have applied to register certain of our trademarks in the United States and other countries. There can be no assurances that we will obtain registrations of principle or other trademarks in key markets. Failure to obtain registrations could compromise our ability to protect fully our trademarks and brands and could increase the risk of challenge from third parties to our use of our trademarks and brands. In addition, our failure to enforce and protect our intellectual property rights or obtain from third parties the right to use necessary technology could have a material adverse effect on our business, financial condition, and results of operations.

Our technologies include an extensive array of ASIC, firmware, software, pattern recognition, and touch sensing technologies. Any one of our products rely on a combination of these technologies, making it difficult to use any single technology as the basis for replicating our products. Furthermore, the length and customization of the customer design cycle serve to protect our intellectual property rights. Our research, design, and engineering teams frequently work directly with our customers to design custom solutions for specific applications.

We do not consistently rely on written agreements with our customers, suppliers, manufacturers, and other recipients of our technologies and products, and therefore some trade secret protection may be lost and our ability to enforce our intellectual property rights may be limited. Furthermore, our customers, suppliers, manufacturers, and other recipients of our technologies and products may seek to use our technologies and products without appropriate limitations. In the past, we did not consistently require our employees and consultants to enter into confidentiality agreements, employment agreements, or proprietary information and invention agreements. Therefore, our former employees and consultants may try to claim some ownership interest in our technologies and products and may use our technologies and products competitively and without appropriate limitations.

Other companies, including our competitors, may develop technologies that are similar or superior to our technologies, duplicate our technologies, or design around our patents and may have or obtain patents or other proprietary rights that would prevent, limit, or interfere with our ability to make, use, or sell our products. Effective intellectual property protection may be unavailable or limited in some foreign countries, such as China and Taiwan, in which we operate. Unauthorized parties may attempt to copy or otherwise use aspects of our technologies and products that we regard as proprietary. There can be no assurance that our means of protecting our proprietary rights in the United States or abroad will be adequate or that competitors will not independently develop similar technologies. If our intellectual property protection is insufficient to protect our intellectual property rights, we could face increased competition in the market for our technologies and products.

We may receive notices from third parties that claim our products infringe their rights. From time to time, we receive notice from third parties of the intellectual property rights such parties have obtained. We cannot be certain that our technologies and products do not and will not infringe

issued patents or other proprietary rights of others. While we are not currently subject to any infringement claim, any future claim, with or without merit, could result in significant litigation costs and diversion of resources, including the payment of damages, which could have a material adverse effect on our business, financial condition, and results of operations.

Customers

We currently serve nine of the world's ten largest PC OEMs, based on unit shipments, as well as a variety of consumer electronics manufacturers. Our demonstrated track record of technological leadership, design innovation, product performance, and on-time delivery have resulted in our serving as the sole source of notebook interfaces for many of our customers. We believe our strong relationship with our OEM customers, many of which are currently developing iAppliance products, will position us as a primary source of supply for their iAppliance offerings.

Our OEM customers include the following:

- Acer
- Apple
- Compaq
- Dell
- E-Machines
- Gateway
- Hewlett-Packard
- Intel
- Samsung
- Sharp

We supply our OEM customers through their contract manufacturers. We sell to and are paid directly by these contract manufacturers. During fiscal 2001, sales to Quanta and Nypro accounted for 32% and 11%, respectively, of our revenue. No other customer accounted for more than 10% of our revenue during this period.

Strategic Relationships

We have established key strategic relationships to enhance our ability to offer value-added customer solutions and rapidly gain market share.

Three-Five Systems and Densitron

Our strategic relationships with each of Three-Five Systems, a leading U.S.-based supplier of custom designed display modules, and Densitron, a leading European-based LCD supplier, provide for the joint development and marketing of touch screen LCD products. We plan to expand our product solutions by integrating our ClearPad and Spiral touch screen solutions with the LCD display modules developed by Three-Five Systems and Densitron. We believe that LCD screens that incorporate our ClearPad technology result in superior LCD touch screens for use in a variety of OEM products, especially cellular phones and PDAs. We intend to enter into additional strategic relationships with other leading companies in our target markets.

Fidelica Microsystems

We established our relationship with Fidelica Microsystems, a leading developer of fingerprint authentication solutions, to develop fingerprint recognition security capabilities. We plan to incorporate fingerprint recognition capabilities into our TouchPad products, allowing us to offer our customers enhanced security for their notebook computers and iAppliances. Users will be required to authenticate their identity by placing a finger on our TouchPad before gaining access to the computer.

Sales and Marketing

We sell our product solutions for incorporation into the products of OEMs. We generate sales through direct sales employees and sales representatives. Our sales personnel receive substantial technical assistance and support because of the highly technical nature of our product solutions. Sales frequently result from multi-level sales efforts that involve senior management, design engineers, and our sales personnel interacting with our customers' decision makers throughout the product development and order process.

We currently employ 23 sales professionals, including seven field application engineers, and 12 marketing professionals. We maintain five sales offices domestically and internationally, which are in the United States, the United Kingdom, Taiwan, China, and Japan. In addition, we maintain sales representatives in eight offices in the United States as well as offices in Singapore, Korea, Japan, and Europe.

International sales, primarily in the Asian and European markets, constituted approximately 97%, 95%, and 86% of our revenue in fiscal 1999, 2000, and 2001, respectively. Substantially all of these sales were made to companies that provide manufacturing services for major notebook computer OEMs. All of these sales were denominated in U.S. dollars, and we believe most of the notebooks were ultimately shipped to the United States.

Manufacturing

We employ a virtual manufacturing platform through third-party relationships. We currently utilize a single semiconductor manufacturer to supply us with our requirements of ASICs based on our proprietary designs.

After production and testing, the ASICs are shipped to our subcontractors for assembly. During the assembly process, our ASIC is combined with other components to complete our product solution. The finished assembly is then shipped by our subcontractors directly to our customers for

integration into their products.

We believe our virtual manufacturing strategy provides a scalable business model; enables us to concentrate on our core competencies of research and development, technological advances, and product solution design; and reduces our capital expenditures. In addition, this strategy significantly reduces our inventory costs because we do not incur most of our manufacturing costs until we have actually shipped our product solutions to our customers and billed those customers for those products.

Our third-party manufacturers are large, world-class, cost-effective, Asian-based organizations. We provide our manufacturing subcontractors with six-month rolling forecasts of our production requirements. We do not, however, have long-term agreements with any of our manufacturing subcontractors that guarantee production capacity, prices, lead times, or delivery schedules. The strategy of relying on those parties exposes us to vulnerability owing to our dependence on few sources of supply. We believe that other sources of supply are available. In addition, we plan to consider establishing relationships with other manufacturing subcontractors in order to reduce our dependence on any one source of supply.

Backlog

As of June 30, 2001, we had a backlog of orders of approximately $12.5 million. The backlog of orders as of June 30, 2000 was approximately $7.0 million. Our backlog consists of product orders for which purchase orders have been received and which are scheduled for shipment within six months. Most orders are subject to rescheduling or cancellation with limited penalties. Because of the possibility of customer changes in product shipments, our backlog as of a particular date may not be indicative of net sales for any succeeding period.

Competition

Our principal competitor in the sale of notebook touch pads is Alps Electric, a Japanese conglomerate. Our principal competitors in the sale of notebook pointing sticks are Alps Electric, Bourne, Brother, and CTS. In the iAppliance interface markets, our potential competitors include Alps Electric, Panasonic, Gunze, and various other companies involved in user interface solutions. In certain cases, large OEMs may develop alternative interface solutions for their own products.

In the notebook interface markets, we plan to continue to compete primarily on the basis of our technological expertise, design innovation, customer service, and the long track record of performance of our interface solutions, including their ease of use, reliability, and cost-effectiveness as well as their timely design, production, and delivery schedules. Our new TouchStyk now enables us to address the approximate 29% of the notebook computer market that uses solely a pointing stick rather than a touch pad as the user interface as well as to address the growing trend to dual pointing interfaces. Our ability to supply OEMs with both TouchPads and TouchStyks will also enhance our competitive position since we can provide OEMs with the following advantages:

- single source supplier that eliminates compatibility issues;
- cost-effective and simplified OEM integration;
- simplified product line to address both markets;
- end user flexibility since one notebook can address both user preferences; and
- modular approach allowing OEMs to utilize our TouchPad, our TouchStyk, or a combination of both interfaces.

In the iAppliance interface markets, we intend to compete primarily based on the advantages of our capacitive, inductive, and neural pattern recognition technologies. We believe our technologies offer significant benefits in terms of size, power consumption, durability, light transmissivity, resolution, ease of use, and reliability when compared to other technologies. While these markets are just beginning to emerge, and we cannot know what the competitive factors will ultimately be, we intend to aggressively compete for this business. In addition, we believe our proven track record, our marquee global customer base, and our reputation for design innovation in the notebook market will provide competitive advantages in the iAppliance markets. However, some of our competitors, particularly in the iAppliance markets, have greater market recognition, large customer bases, and substantially greater financial, technical, marketing, distribution, and other resources than we possess and that afford them competitive advantages. As a result, they may be able to introduce new product solutions and respond to customer requirements more quickly than we can. In addition, new competitors, alliances among competitors, or alliances among competitors and OEMs may emerge and allow competitors to rapidly acquire significant market share. Furthermore, our competitors may in the future develop technologies that more effectively address the interface needs of the notebook computer and iAppliance markets.

Our sales, profitability, and success depend on our ability to compete with other suppliers of interface solutions. Our competitive position could be adversely affected if one or more of our current OEMs reduce their orders or if we are unable to develop customers for our new iAppliance interface solutions.

Employees

As of June 30, 2001, we employed a total of 143 persons, including 22 in finance, administration, and operations, 37 in sales and marketing, and 84 in research and development. Of these employees, 108 were located in the United States, 21 in the United Kingdom, and 14 in Taiwan. We consider our relationship with our employees to be good, and none of our employees are represented by a union in collective bargaining with us.

Competition for qualified personnel in our industry is extremely intense, particularly for engineering and other technical personnel. Our success depends in part on our continued ability to attract, hire, and retain qualified personnel.

Facilities

Our principal executive officers as well as our principal research, development, sales, marketing, and administrative functions are located in a 34,000 square foot leased facility in San Jose, California. The lease extends through January 2005 and provides for an average monthly rental payment of $57,189. We believe this facility will be adequate to meet our needs for at least the next 18 months. Our European headquarters are located in Cambridge, United Kingdom, where we lease approximately 4,000 square feet. We also maintain a 5,000 square foot office in Taiwan. In addition, we maintain satellite sales and support offices in Japan and China.

Legal Proceedings

We currently are not involved in any legal proceeding that we believe would have a material adverse effect on our business or financial condition.

MANAGEMENT

Directors and Executive Officers

The following table sets forth certain information regarding our directors and executive officers.

Name	Age	Position
Federico Faggin	59	Chairman of the Board
Francis F. Lee	49	President, Chief Executive Officer, and Director
Shawn P. Day, Ph.D.	35	Vice President of Research and Development
Donald E. Kirby	53	Vice President of Operations and General Manager PC Products
Russell J. Knittel	51	Vice President of Administration and Finance, Chief Financial Officer, and Secretary
Richard C. McCaskill	53	Vice President of Marketing and Business Development
Thomas D. Spade	35	Vice President of Worldwide Sales
Keith B. Geeslin	48	Director
Richard L. Sanquini	66	Director
Joshua C. Goldman	35	Director

Federico Faggin co-founded our company and has served as the Chairman of the Board since January 1999. He served as a director and the President and Chief Executive Officer from March 1987 to December 1998. Mr. Faggin also co-founded Cygnet Technologies, Inc. in 1982 and Zilog, Inc. in 1974. Mr. Faggin served as Department Manager in Research and Development at Intel Corporation from 1970 to 1974 and led the design and development of the world's first microprocessor and more than 25 integrated circuits. In 1968, Mr. Faggin was employed by Fairchild Semiconductor and led the development of the original MOS Silicon Gate Technology and designed the world's first commercial integrated circuit to use such technology. Mr. Faggin is also chairman of Integrated Device Technology, Inc., a producer of integrated circuits; a director of GlobeSpan Inc., a producer of DSL integrated circuits; and a director of Avanex Corp., a producer of fiber optic-based products, known as photonic processors; each of which is a public company. He is the recipient of many honors and awards including the 1988 International Marconi Fellowship Award, the 1994 IEEE W. Wallace McDowell Award, and the 1997 Kyoto Prize. In addition, in 1996, Mr. Faggin was inducted in the National Inventor's Hall of Fame for the co-invention of the microprocessor. Mr. Faggin holds a Dottore in Fisica degree in physics, summa cum laude, from the University of Padua, Italy. He also holds an honorary doctorate degree in computer science from the University of Milan, Italy.

Francis F. Lee has served as a director and the President and Chief Executive Officer of our company since December 1998. He was a consultant from August 1998 to November 1998. From May 1995 until July 1998, Mr. Lee served as General Manager of NSM, a Hong Kong-based joint venture between National Semiconductor Corporation and S. Megga. Mr. Lee held a variety of executive positions for National Semiconductor from 1988 until August 1995. These positions included Vice President of Communication and Computing Group, Vice President of Quality and Reliability, Director of Standard Logic Business Unit, and various other operations and engineering management positions. Mr. Lee holds a Bachelor of Science degree in electrical engineering from the University of California at Davis with honors.

Shawn P. Day, Ph.D. has served as Vice President of Research and Development of our company since June 1998 and as Director of Software Development from November 1996 until May 1998. He served as principal software engineer from August 1995 until October 1996. Mr. Day holds a Bachelor of Science degree and a Doctorate, both in electrical engineering, from the University of British Columbia in Vancouver, Canada.

Donald E. Kirby has been the General Manager PC Products and Vice President of Operations of our company since August 1999. From September 1997 to July 1999, Mr. Kirby served as Vice President of Technology Infrastructure and Core Technology Group of National Semiconductor; from January 1997 to August 1997, he served as Director of Strategic Technology Group of National Semiconductor; and from October 1995 to December 1996, he served as Director of Operations/ Co-GM, LAN Division of National Semiconductor. Mr. Kirby holds a patent for a Micro-controller ROM Emulator.

Russell J. Knittel has been the Vice President of Administration and Finance, Chief Financial Officer, and Secretary of our company since April 2000. Mr. Knittel served as Vice President and Chief Financial Officer of Probe Technology Corporation from May 1999 to March 2000. He was a consultant from January 1999 until April 1999. Mr. Knittel held Vice President and Chief Financial Officer positions at Starlight Networks from November 1994 to December 1998. Mr. Knittel holds a Bachelor of Arts degree in accounting from California State University at Fullerton and a Masters of Business Administration from San Jose State University.

Richard C. McCaskill has been the Vice President of Marketing and Business Development of our company since May 2000. Mr. McCaskill

served as the Executive Vice President and General Manager for ART Inc., a speech and handwriting recognition company, from December 1996 to April 2000. Mr. McCaskill served as a consultant for ART Inc. and Micropolis from June 1996 to December 1996. From April 1993 to May 1996, Mr. McCaskill held the position of Vice President of Technology at Reveal Computer Products, a sister company to Packard Bell Computers. Mr. McCaskill holds a Bachelor of Science degree in electrical engineering from California State University at Los Angeles.

Thomas D. Spade has been the Vice President of Worldwide Sales of our company since July 1999. From May 1998 until June 1999, he served as our Director of Sales. From May 1996 until April 1998, Mr. Spade was the Director of International Sales for Alliance Semiconductor. Mr. Spade previously has held additional sales and management positions at Alliance Semiconductor, Anthem Electronics, Arrow Electronics, and Andersen Consulting. Mr. Spade holds a Bachelor of Arts degree in economics and management from Albion College.

Keith B. Geeslin has been a director of our company since 1986. Mr. Geeslin serves as Managing General Partner of Sprout Group, a venture capital firm. He joined Sprout Group in 1984 and became a general partner in 1988. In addition, he is a general or limited partner in a series of investment funds associated with Sprout Group, a division of DLJ Capital Corporation, which is a subsidiary of Credit Suisse First Boston (USA), Inc. Mr. Geeslin is currently a director of GlobeSpan Corporation, a producer of DSL integrated circuits; RHYTHMS NetConnections Inc., a provider of broadband local access communications services; Innoveda, Inc.; and Paradyne Networks Inc., a producer of communication products for network service providers and business customers; each of which is a public company. Mr. Geeslin is also a director of several privately held companies. He has also served as a director of the Western Association of Venture Capitalists. Mr. Geeslin holds a Bachelor of Science degree in electrical engineering and a Masters of Science degree in engineering and economic systems from Stanford University and a Masters of Arts degree in philosophy, politics, and economics from Oxford University.

Richard L. Sanquini has been a director of our company since 1994. Mr. Sanquini is currently a semiconductor specialist consultant for our company, Foveon, Inc., PortalPlayer, LitePoint, and National Semiconductor Corporation. From January 1999 to November 1999, Mr. Sanquini served as Senior Vice President and General Manager of the Consumer and Commercial Group of National Semiconductor; from April 1998 to December 1998, he served as Senior Vice President and General Manager of the Cyrix Group of National Semiconductor; from November 1997 to March 1998, he served as Senior Vice President and General Manager of the Personal Systems Group of National Semiconductor; from April 1996 to October 1997, he served as Senior Vice President and Chief Technology Officer of the Corporate Strategy, Business Development and Intellectual Property Protection Group of National Semiconductor; and from December 1995 to March 1996, he served as Senior Vice President of the Business Development and Intellectual Property Protection Group of National Semiconductor. Mr. Sanquini also has been a

director of Foveon, Inc. since August 1997. Mr. Sanquini holds a Bachelor of Science degree in electrical engineering from the Milwaukee School of Engineering.

Joshua C. Goldman has been a director of our company since January 2001. Mr. Goldman became an entrepreneur in residence at Sprout Group in April 2001. Mr. Goldman was employed by mySimon, an online comparison shopping site, as President and Chief Executive Officer from January 1999 to March 2001 and as Vice President of Marketing from November 1998 to January 1999. From October 2000 to March 2001, Mr. Goldman also served as President of the Consumer Division of CNet Networks, which acquired mySimon in February 2000. He served as Vice President of Marketing at 4th Networks, Inc. from June 1998 until October 1998. From April 1996 until May 1998, Mr. Goldman was with USWeb, where he last served as Vice-President of Business Solutions. Mr. Goldman has also served in management roles at Apple Computer, Phoenix Technologies, and Softbank Content Services. He earned a Bachelor of Science degree in computer science with an emphasis in artificial intelligence, with honors, from Tufts University and a Masters of Business Administration from Harvard Business School.

There are no family relationships among any of our directors, officers, or key employees.

Board Committees

Our board of directors established an audit committee in February 2001, consisting of independent directors. The members are Messrs. Geeslin, Sanquini, and Goldman.

The functions of the audit committee are as follows:

- review our internal accounting principles and auditing practices and procedures;
- consult with and review the services provided by our independent accountants; and
- make recommendations to the board of directors about selecting independent accountants.

We established a compensation committee in September 2000. The compensation committee consists of Messrs. Geeslin and Sanquini. The compensation committee reviews and recommends to the board of directors the salaries, incentive compensation, and benefits of our officers and employees, including stock compensation and loans, and administers our stock plans and employee benefit plans.

Prior to the establishment of the audit and compensation committees, these functions were performed by our board of directors.

Compensation Committee Interlocks and Insider Participation

None of the members of the compensation committee is, or ever has been, an officer or employee of our company, or an officer or employee of any of our subsidiaries. No interlocking relationship exists between any member of our board of directors or our compensation committee and any member of the board of directors or compensation committee of any other company.

Director Compensation

All non-employee directors will be reimbursed for their expenses for attending board and committee meetings. The company intends to pay a fee of $1,500 to non-employee directors for attendance at board meetings and $500 for attendance at committee meetings. In addition, directors are eligible to receive grants of stock options under our 1996 Stock Option Plan. During fiscal 2001, we granted options to purchase shares of

common stock to the following non-employee directors: options to purchase 25,000 shares at an exercise price of $3.00 per share were granted to Mr. Geeslin; options to purchase 100,000 shares at an exercise price of $3.00 were granted to Mr. Faggin; and options to purchase 50,000 shares at an exercise price of $5.50 were granted to Mr. Goldman. Options to purchase 25% of such shares vest and become exercisable on the first anniversary of the date of grant, and options to purchase 1/48th of the total shares vest and become exercisable on the first of each month thereafter.

Mr. Sanquini and Mr. T.W. Kang, a former director, from time to time have provided consulting services to us. We have issued options for our common stock as compensation for these services. We issued options for 12,500 shares at an exercise price of $2.50 to Mr. Sanquini and options for 4,531 shares at an exercise price of $2.50 to Mr. Kang during fiscal 2000. We also issued options for 12,500 shares at an exercise price of $2.50 to Mr. Sanquini during fiscal 2001. The options were fully vested upon completion of the consulting arrangements. In addition, Mr. Kang received 14,501 shares of our common stock valued at an aggregate of $19,335 during fiscal 2000.

Executive Compensation

The table below summarizes the compensation earned for services provided to us in all capacities for the fiscal year ended June 30, 2001 by our chief executive officer and our four next most highly compensated executive officers whose compensation exceeded $100,000, whom we refer to as the named executive officers.

Summary Compensation Table

				Long-Term Compensation
				Awards
		Annual Compensation		
Name and Principal Position	Year	Salary($)	Bonus($)	Securities Underlying Options(#)
Francis F. Lee President, Chief Executive Officer, and Director	2001	220,000	175,000	250,000
Russell J. Knittel Vice President of Administration and Finance, Chief Financial Officer, and Secretary	2001	190,000	67,000	45,000
Shawn P. Day, Ph.D. Vice President of Research and Development	2001	170,000	45,000	60,000
Donald E. Kirby General Manager PC Products and Vice President of Operations	2001	195,000	90,000	40,000
Thomas D. Spade Vice President of Worldwide Sales	2001	199,883(1)	—	50,000

(1) Mr. Spade also received certain perquisites, the value of which did not exceed the lesser of $50,000 or 10% of his salary and bonus during fiscal 2001.

Option Grants in Last Fiscal Year

The table below provides information about the stock options granted to the named executive officers during the fiscal year ended June 30, 2001. These options were granted under our 1996 stock option plan and 2000 nonstatutory stock option plan and have a term of ten years. The options may terminate earlier if the optionholder stops providing services to us.

We granted options to purchase 1,651,272 shares of our common stock in fiscal 2001. The percentage of total options in the table below was calculated based on options to purchase an aggregate of 1,446,240 shares of our common stock granted to our employees in fiscal 2001.

Options were granted at an exercise price that we believed represented the fair value of our common stock, as determined in good faith by our board of directors.

	Individual Grants				Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term(2)	
Name	Number of Securities Underlying Options Granted(#)(1)	Percent of Total Options Granted to Employees in Fiscal Year	Exercise Price($/Sh)	Expiration Date	5%	10%
Francis F. Lee	250,000	17.3%	$ 3.00	9/19/10	$ 3,729,460	$ 6,382,792
Russell J. Knittel	45,000	3.1	8.50	3/06/11	423,803	901,403
Shawn P. Day, Ph.D.	60,000	4.1	3.00	9/19/10	895,070	1,531,870

Donald E. Kirby	40,000	2.8	3.00	9/19/10	596,714	1,021,247
Thomas D. Spade	50,000	3.5	3.00	9/19/10	745,892	1,276,558

(1) Of Mr. Lee's options, 50,000 vest and become exercisable 1/12 on the 18th day of each month, commencing on February 18, 2003, and 200,000 vest and become exercisable 1/12 on the 18th day of each month, commencing on February 18, 2004. Mr Knittel's options vest and become exercisable 1/12 on the first day of each month, commencing on April 1, 2004. Mr. Day's and Mr. Spade's options vest and become exercisable 1/24 on the 12th day of each month, commencing on February 12, 2003. Mr. Kirby's options vest and become exercisable 1/12 on the last day of each month, commencing on September 30, 2003.

(2) Potential gains are net of the exercise price, but before taxes associated with the exercise. Amounts represent hypothetical gains that could be achieved for the respective options if exercised at the end of the option term. The potential realizable value assumes that the stock price appreciates from the assumed public offering price of $11.00 per share. The assumed 5% and 10% rates of stock price appreciation are provided in accordance with the rules of the SEC and do not represent our estimate or projection of the future price of our company's common stock. Actual gains, if any, on stock option exercises will depend upon the future market prices of our common stock.

Aggregate Option Exercises During Fiscal 2001 and Fiscal 2001 Option Values

The following table describes, for the named executive officers, the number of shares acquired and the value realized upon exercise of stock options during fiscal 2001 and the exercisable and unexercisable options held by them as of June 30, 2001. The "Value Realized" and "Value of Unexercised In-the-Money Options at June 30, 2001" shown in the table represents an amount equal to the difference between the assumed public offering price of $11.00 per share and the option exercise price multiplied by the number of shares acquired on exercise and the number of unexercised in-the-money options.

	Shares Acquired on Exercise	Value Realized	Number Of Securities Underlying Unexercised Options at June 30, 2001		Value Of Unexercised In-The-Money Options at June 30, 2001	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Francis F. Lee	—	$ —	—	690,625(1)	$ —	$ 6,181,250
Russell J. Knittel	80,000(2)	680,000	—	225,000	—	1,642,500
Shawn P. Day, Ph.D.	30,000	300,000	27,747	102,253	255,470	864,531
Donald E. Kirby	—	—	114,583	175,417	1,031,147	1,318,753
Thomas D. Spade	40,000	400,000	52,584	97,416	503,840	836,161

(1) Includes 65,625 shares acquired by Mr. Lee pursuant to the early exercise of options in a prior year that are subject to a repurchase option until vesting requirements are met.

(2) The options were exercised early and 556 of the shares are subject to a repurchase option until vesting requirements are met.

Employment Arrangements

We anticipate entering into employment arrangements with persons who are believed to make significant contributions to our company, and will implement compensation packages for certain members of management as well as for other personnel. The terms of such agreements may include payment of salary for the period of tenure with the company. Other key employees will be offered incentive compensation payable in our common stock. Issuance of these shares will dilute existing stockholders. These arrangements will not be the result of arms' length negotiation. However, management anticipates the terms thereof will be reasonable when compared to similar arrangements within the industry.

Change of Control Agreements

Mr. Knittel, our chief financial officer who was hired in April 2000, is entitled to six months severance pay in the event of a change of control or a constructive termination as a result of reduced responsibilities or stature within our company. Options granted at the time of joining the company include accelerated vesting for Mr. Lee for 50% of his unvested options and for Mr. Knittel for 100% of his unvested options upon a change of control or a constructive termination as a result of reduced responsibilities or stature within our company. Mr. Faggin holds options for 415,000 shares that provide for immediate vesting of 50% of the unvested options in the event of a change of control.

1986 Incentive Stock Option Plan and 1986 Supplemental Stock Option Plan

The 1986 incentive stock option plan provided for the grant of incentive stock options to our key employees, including employee directors. The 1986 supplemental stock option plan provided for the grant of nonstatutory stock options to employees, directors, and consultants. As of June 30, 2001, there were outstanding options to acquire 52,000 shares of our common stock under the two 1986 plans. The 1986 incentive stock option plan and the 1986 supplemental stock option plan expired November 1996, and no additional options will be issued under those plans. The expiration date, maximum number of shares purchasable, and the other provisions of the options, including vesting provisions, were established at the time of grant. Options were granted for terms of up to 10 years and become exercisable in whole or in one or more installments at such time as was determined by the administrator upon the grant of the options. Under the 1986 incentive stock option plan, exercise prices of options are equal

to not less than 100% of the fair market value of our common stock at the time of the grant. Under the 1986 supplemental stock option plan, exercise prices of options are equal to not less than 85% of the fair market value of our common stock at the time of the grant. The exercise price for any options granted under the 1986 incentive stock option plan and the 1986 supplemental stock option plan may be paid in cash, in shares of our common stock valued at fair market value on the exercise date, or in any other form of legal consideration that may be acceptable to the board of directors or administrator in their discretion. In addition, the administrator may provide financial assistance to one or more optionees in the exercise of their outstanding options by allowing any such individual to deliver an interest-bearing promissory note in payment of the exercise price and any associated withholding taxes incurred in connection with the exercise or purchase. In the event of a change of control of our company, we would expect that options outstanding under the 1986 incentive stock option plan and the 1986 supplemental stock option plan at the time of the transaction would be assumed or replaced with substitute options by the acquiror. If our acquiror did not agree to assume or replace outstanding awards, either the exercise period of all options will accelerate and terminate if not exercised upon consummation of the acquisition, or such options will remain in effect. Outstanding awards under the 1986 incentive stock option plan and the 1986 supplemental stock option plan will be adjusted in the event of a stock split, stock dividend, or other similar change in our capital stock without the receipt of consideration by us.

1996 Stock Option Plan

Our 1996 stock option plan provides for the grant of incentive stock options to employees, including employee directors, and of nonstatutory stock options to employees, directors, and consultants. The purposes of the 1996 stock option plan are to attract and retain the best available personnel, to provide

additional incentives to our employees and consultants, and to promote the success of our business. The 1996 stock option plan was originally adopted by our board of directors in December 1996 and approved by our stockholders in November 1996. The 1996 stock option plan provides for the issuance of options and rights to purchase up to 5,380,918 shares of our common stock. Unless terminated earlier by the board of directors, the 1996 stock option plan will terminate in December 2006.

As of June 30, 2001, 3,753,241 options to purchase shares of common stock were outstanding under the 1996 stock option plan and 1,290,548 shares had been issued upon exercise of outstanding options.

The 1996 stock option plan may be administered by the board of directors or a committee of the board, each known as the administrator. The administrator determines the terms of options granted under the 1996 stock option plan, including the number of shares subject to the award, the exercise or purchase price, and the vesting and exercisability of the award and any other conditions to which the award is subject. Incentive stock options granted under the 1996 stock option plan must have an exercise price of at least 100% of the fair market value of the common stock on the date of grant (110% if the option is granted to a stockholder who at the time the option is granted owns stock representing more than 10% of the total combined voting power of all classes of our stock). Nonstatutory stock options granted under the 1996 stock option plan must have an exercise price of at least 85% of the fair market value of the common stock on the date of grant (110% if the option is granted to a stockholder who at the time the option is granted owns stock representing more than 10% of the total combined voting power of all classes of our stock). The exercise price for any options granted under the 1996 stock option plan may be paid in cash, in shares of our common stock valued at fair market value on the exercise date, or in any other form of legal consideration that may be acceptable to the board of directors or administrator in their discretion. The option may also be exercised through a same-day sale program without any cash outlay by the optionee. In addition, the administrator may provide financial assistance to one or more optionees in the exercise of their outstanding options by allowing any such individual to deliver an interest-bearing promissory note in payment of the exercise price and any associated withholding taxes incurred in connection with the exercise or purchase.

With respect to options granted under the 1996 stock option plan, the administrator determines the term of options, which may not exceed 10 years, or five years in the case of an incentive stock option granted to a holder of more than 10% of the total voting power of all classes of our stock. An option is nontransferable other than by will or the laws of descent and distribution and may be exercised during the lifetime of the optionee only by the optionee. Stock options are generally subject to vesting, meaning that the optionee earns the right to exercise the option over a specified period of time only if he or she continues to provide services to our company over that period.

If our company or its business is acquired by another corporation, we would expect that options outstanding under the 1996 stock option plan at the time of the transaction would be assumed or replaced with substitute options by our acquiror. If our acquiror did not agree to assume or replace outstanding awards, all options will terminate upon consummation of the acquisition. Outstanding awards and the number of shares remaining available for issuance under the 1996 stock option plan will adjust in the event of a stock split, stock dividend, or other similar change in our capital stock without the receipt of consideration by us. The administrator has the authority to amend or terminate the 1996 stock option plan, but no action may be taken that impairs the rights of any holder of an outstanding option without the holder's consent. In addition, we must obtain stockholder approval of amendments to the plan as required by applicable law.

2000 Nonstatutory Stock Option Plan

Our 2000 nonstatutory stock option plan provides for the grant of nonstatutory stock options to employees and consultants. The purposes of the 2000 nonstatutory stock option plan are to attract and retain the best available personnel, to provide additional incentives to our employees and consultants, and to promote the success of our business. The 2000 nonstatutory stock option plan was adopted by our board of directors in September 2000. The 2000 nonstatutory stock option plan provides for the issuance of

options to purchase up to 200,000 shares of our common stock. As of June 30, 2001, there were outstanding options to acquire 166,000 shares of our common stock. Unless terminated earlier by the board of directors, the 2000 nonstatutory stock option plan will terminate in September 2010.

The 2000 nonstatutory stock option plan may be administered by the board of directors or a committee of the board, each known as the administrator. The administrator determines the terms of options granted under the 2000 nonstatutory stock option plan, including the number of shares subject to the award, the exercise or purchase price, and the vesting and/or exercisability of the award and any other conditions to which the award is subject. The exercise price for any options granted under the 2000 nonstatutory stock option plan may be paid in cash, in shares of our common stock valued at fair market value on the exercise date, or in any other form of legal consideration that may be acceptable to the board

of directors or administrator in their discretion. The option may also be exercised through a same-day sale program without any cash outlay by the optionee. In addition, the administrator may provide financial assistance to one or more optionees in the exercise of their outstanding options by allowing such individuals to deliver an interest-bearing promissory note in payment of the exercise price and any associated withholding taxes incurred in connection with such exercise or purchase. The term of options granted under the 2000 nonstatutory stock option plan may not exceed 10 years.

If our company or its business is acquired by another corporation, we would expect that options outstanding under the 2000 nonstatutory stock option plan at the time of the transaction would be assumed or replaced with substitute options by our acquiror. If our acquiror did not agree to assume or replace outstanding awards, all options will terminate upon consummation of the acquisition. Outstanding awards and the number of shares remaining available for issuance under the 2000 nonstatutory stock option plan will be adjusted in the event of a stock split, stock dividend, or other similar change in our capital stock. The administrator has the authority to amend or terminate the 2000 nonstatutory stock option plan, but no action may be taken that impairs the rights of any holder of an outstanding option without the holder's consent.

2001 Incentive Compensation Plan

Our 2001 incentive compensation plan is designed to attract, motivate, retain, and reward our executives, employees, officers, directors, and independent contractors, by providing such persons with annual and long-term performance incentives to expend their maximum efforts in the creation of stockholder value. The 2001 incentive compensation plan was adopted by our board of directors in March 2001. Under the 2001 incentive compensation plan, an aggregate of 400,000 shares of common stock may be issued pursuant to the granting of options to acquire common stock, the direct granting of restricted common stock and deferred stock, the granting of stock appreciation rights, or the granting of dividend equivalents. On the effective date of the registration statement of which this prospectus forms a part, an additional number of shares equal to 6% of the total number of shares then outstanding will be added and thereafter on the first day of each succeeding calendar quarter an additional number of shares equal to 1 1/2% of the total number of shares then outstanding will be added to the number of shares that may be subject to the granting of awards. As of June 30, 2001, there were no outstanding options to acquire shares of our common stock under the 2001 incentive compensation plan.

The 2001 incentive compensation plan may be administered by the board of directors or a committee of the board. The committee or the board of directors determines the persons to receive awards, the type and number of awards to be granted, the vesting and exercisability of the award, and any other conditions to which the award is subject. Awards may be settled in the form of cash, shares of common stock, other awards, or other property in the discretion of the committee or the board of directors.

The committee or the board of directors may, in its discretion, accelerate the exercisability, the lapsing of restrictions, or the expiration of deferral or vesting periods of any award, and such accelerated exercisability, lapse, expiration and, if so provided in the award agreement, vesting will occur automatically in the case of a "change in control" of our company. In addition, the committee or the board or directors may provide in an award agreement that the performance goals relating to any performance based award

will be deemed to have been met upon the occurrence of any "change in control." Upon the occurrence of a change in control, if so provided in the award agreement, stock options and certain stock appreciation rights may be cashed out based on a "change in control price," which will be the higher of (1) the cash and fair market value of property that is the highest price per share paid in any reorganization, merger, consolidation, liquidation, dissolution or sale of substantially all assets of our company, or (2) the highest fair market value per share at any time during the 60 days before and 60 days after a change in control.

The board of directors may amend, alter, suspend, discontinue, or terminate the 2001 incentive compensation plan or the committee's authority to grant awards without further stockholder approval, except stockholder approval must be obtained for any amendment or alteration if such approval is required by law or regulation or under the rules of any stock exchange or quotation system on which shares of common stock are then listed or quoted. Unless terminated earlier by the board of directors, the 2001 incentive compensation plan will terminate at such time as no shares of common stock remain available for issuance under the plan and the company has no further rights or obligations with respect to outstanding awards under the plan.

2001 Employee Stock Purchase Plan

Our 2001 employee stock purchase plan is designed to encourage stock ownership in our company by our employees, thereby enhancing employee interest in our continued success. The plan was adopted by our board of directors in February 2001 and will become effective on the effective date of the registration statement of which this prospectus forms a part. One million shares of our common stock will initially be reserved for issuance under the plan. An annual increase will be made of the lesser of 500,000 shares, 1% of all shares of common stock outstanding, or a lesser amount determined by the board of directors. The plan is currently administered by our board of directors. Under the plan's terms, however, the board may appoint a committee to administer the plan. The plan gives broad powers to the board or the committee to administer and interpret the plan.

The plan permits employees to purchase our common stock at a favorable price and possibly with favorable tax consequences to the participants. All employees of our company or of those subsidiaries designated by the board who are regularly scheduled to work at least 20 hours per week for more than five months per year are eligible to participate in any of the purchase periods of the plan after completing 90 days of continuous employment. However, any participant who would own (as determined under the Internal Revenue Code), immediately after the grant of an option, stock possessing 5% or more of the total combined voting power or value of all classes of the stock of our company will not be granted an option under the plan.

The plan will be implemented in a series of successive offering periods, each with a maximum duration of 24 months. The initial offering period, however, will begin on the effective date of the registration statement of which this prospectus forms a part and will end on November 30, 2003, and the second offering period will begin December 1, 2003 and end on December 31, 2005. If the fair market value per share of our common stock on any purchase date is less than the fair market value per share on the start date of a 24 month offering period, then that offering period will automatically terminate, and a new 24 month offering period will begin on the next business day. All participants in the terminated offering will be transferred to the new offering period.

Under the plan, eligible employees may elect to participate in the plan on January 1 or July 1 of each year. Subject to certain limitations

determined in accordance with calculations set forth in the plan, a participating employee is granted the right to purchase shares of common stock on the last business day on or before each June 30 and December 31 during which the employee is a participant in the plan. Upon enrollment in the plan, the participant authorizes a payroll deduction, on an after-tax basis, in an amount of not less than 1% and not more than 15% of the participant's compensation on each payroll date. Unless the participant withdraws from the plan, the participant's option for the purchase of shares will be exercised automatically on each exercise date, and the maximum number of full shares subject to the option will be purchased for the participant at the applicable exercise price with the accumulated plan

contributions then credited to the participant's account under the plan. The option exercise price per share may not be less than 85% of the lower of the market price on the first day of the offering period or the market price on the exercise date, unless the participant's entry date is not the first day of the offering period, in which case the exercise price may not be lower than 85% of the greater of the market price on the first day of the offering period or the market price of the common stock on the entry date.

As required by tax law, no participant may receive an option under the plan for shares which have a fair market value in excess of $25,000 for any calendar year, determined at the time the option is granted. Any funds not used to purchase shares will remain credited to the participant's bookkeeping account and applied to the purchase of shares of common stock in the next succeeding purchase period. No interest is paid on funds withheld, and those funds are used by our company for general operating purposes.

No plan contributions or options granted under the plan are assignable or transferable, other than by will or by the laws of descent and distribution or as provided under the plan. During the lifetime of a participant, an option is exercisable only by that participant. The expiration date of the plan will be determined by the board and may be made any time following the close of any six-month exercise period, but may not be longer than ten years from the date of the grant. If our company dissolves or liquidates, the offering period will terminate immediately prior to the consummation of that action, unless otherwise provided by the board. In the event of a merger or a sale of all or substantially all of our company's assets, each option under the plan will be assumed or an equivalent option substituted by the successor corporation, unless the board, in its sole discretion, accelerates the date on which the options may be exercised. The unexercised portion of any option granted to an employee under the plan shall be automatically terminated immediately upon the termination for any reason, including retirement or death, of the employee's employment.

The plan provides for adjustment of the number of shares for which options may be granted, the number of shares subject to outstanding options, and the exercise price of outstanding options in the event of any increase or decrease in the number of issued and outstanding shares as a result of one or more reorganizations, restructurings, recapitalizations, reclassifications, stock splits, reverse stock splits, or stock dividends.

The board or the committee may amend, suspend, or terminate the plan at any time, provided that such amendment may not adversely affect the rights of the holder of an option and the plan may not be amended if such amendment would in any way cause rights issued under the plan to fail to meet the requirements for employee stock purchase plans as defined in section 423 of the Internal Revenue Code, or would cause the plan to fail to comply with rule 16b-3 under the Exchange Act.

The company's stockholders will not have any preemptive rights to purchase or subscribe for the shares reserved for issuance under the plan. If any option granted under the plan expires or terminates for any reason other than having been exercised in full, the unpurchased shares subject to that option will again be available for purposes of the plan.

401(k) Profit Sharing Plan

In July 1991, we adopted a 401(k) profit sharing plan for which our employees generally are eligible. The plan is intended to qualify under Section 401(k) of the Internal Revenue Code, so that contributions to the plan by employees or by us and the investment earnings on the contributions are not taxable to the employees until withdrawn. Our contributions are deductible by us when made. Our employees may elect to reduce their current compensation by an amount equal to the maximum of 25% of total annual compensation or the annual limit permitted by law ($10,500 in 2001) and to have those funds contributed to the plan. Although we may make matching contributions to the plan on behalf of all participants, we have not made any contributions since the plan's adoption.

Indemnification Under our Certificate of Incorporation and Bylaws

The certificate of incorporation of our company provides that no director will be personally liable to the company or its stockholders for monetary damages for breach of a fiduciary duty as a director, except to the extent such exemption or limitation of liability is not permitted under the Delaware General Corporation Law (the "Delaware GCL"). The effect of this provision in the certificate of incorporation is to eliminate the rights of the company and its stockholders, either directly or through stockholders' derivative suits brought on behalf of the company, to recover monetary damages from a director for breach of the fiduciary duty of care as a director except in those instances described under the Delaware GCL. In addition, we have adopted provisions in our bylaws and entered into indemnification agreements that require the company to indemnify its directors, officers, and certain other representatives of the company against expenses and certain other liabilities arising out of their conduct on behalf of the company to the maximum extent and under all circumstances permitted by law. Indemnification may not apply in certain circumstances to actions arising under the federal securities laws.

CERTAIN RELATIONSHIPS AND TRANSACTIONS

Financing Activities

The following table summarizes the shares of preferred stock purchased by executive officers, directors, and 5% stockholders and persons and entities associated with them in private placement transactions. Each share of Series A preferred stock converts into 3.3391594 shares (rounded down to the nearest whole number) of common stock automatically upon the closing of this offering. Each share of Series B preferred

stock converts into 3.0000171 shares (rounded down to the nearest whole number) of common stock automatically upon the closing of this offering. Each share of Series C preferred stock, Series D preferred stock, Series E preferred stock, and Series F preferred stock converts into one share of common stock automatically upon the closing of this offering. The shares of Series A preferred stock were sold at $1.28 per share; the shares of Series B preferred stock were sold at $1.75 per share; the shares of Series C preferred stock were sold at $1.10 per share; the shares of Series D preferred stock were sold at $1.75 per share; the shares of Series E preferred stock were sold at $2.50 per share; and the shares of Series F preferred stock were sold at $4.50 per share. See "Principal and Selling Stockholders."

Name	Series A Preferred	Series B Preferred	Series C Preferred	Series D Preferred	Series E Preferred	Series F Preferred
National Semiconductor Corporation(1)	—	—	—	—	2,000,000	666,667
Technology Venture Investors-3	231,101	280,333	—	—	—	—
TVI Management-3	3,274	5,381	—	—	—	—
Technology Venture Investors-IV	—	—	—	325,714	56,800	55,064
Sprout Capital V(2)	210,469	256,571	—	—	42,554	40,110
Sprout Technology Fund(2)	12,422	15,143	—	—	2,512	2,368
Sprout Capital VI, L.P.(2)	—	—	—	314,918	9,100	8,577
DLJ Venture Capital Fund(2)	38,346	42,000	—	—	2,322	2,189
DLJ Venture Capital Fund II(2)	—	—	—	10,796	312	294
Oak Investment Partners IV, Limited Partnership	—	—	—	1,093,028	382,560	106,267
Oak IV Affiliates Fund, Limited Partnership	—	—	—	49,828	17,440	4,844
Kleiner, Perkins, Caufield & Byers IV	—	268,572	—	205,714	56,800	29,084
Delphi BioInvestments, L.P.	—	—	1,927	1,010	247	12
Delphi BioInvestments II, L.P.	—	—	—	—	832	40
Delphi Ventures, L.P.	—	—	543,528	284,704	69,741	3,321
Delphi Ventures II, L.P.	—	—	—	—	162,472	7,738

(1) Mr. Sanquini is a consultant to, and is a former officer of, National Semiconductor Corporation.

(2) Mr. Geeslin is a general partner of the general partner of these entities.

Indebtedness of Management

The individuals listed below elected to pay the exercise price for some of their outstanding options with full recourse promissory notes secured by the common stock underlying the options. The notes bear interest at rates ranging from 4.5% to 6.1% per year. The notes become due over the period from April 2003 to October 2009 or upon termination of employment, whichever is earlier. At June 30, 2001, the unpaid principal balance of these notes totaled $832,500. The original total principal amounts and the maturity dates for the promissory notes executed by each executive officer or former executive officer are as follows:

Executive Officer	Total Original Note Amount	Maturity Date
Francis F. Lee	$ 225,000	December 22, 2007
Francis F. Lee	$ 200,000	December 30, 2008
Francis F. Lee	$ 100,000	January 7, 2009
Russell J. Knittel	$ 200,000	October 13, 2009
James L. Lau	$ 107,500	April 30, 2003
Sid Agrawal	$ 160,000	July 21, 2003*

* Upon termination, Mr. Agrawal paid for the vested portion of his shares in the amount of $62,220 plus interest and the balance of the note was cancelled.

Transactions regarding Foveon

In August 1997, we entered into an agreement with National Semiconductor in connection with a new development stage company, Foveonics, Inc., now known as Foveon, Inc., which produces digital cameras and digital imaging components. We contributed imaging patents and other technology in exchange for 1,728,571 shares of Foveon's Series A preferred stock. Under the agreement, we had the right to acquire additional shares of Series A preferred stock at a specified price using funds provided under a limited-recourse loan arrangement with National. National loaned our company $1.5 million, which we contributed to Foveon in exchange for 1,371,429 additional Series A preferred shares. The limited-recourse loan is secured only by a portion of these Series A preferred shares. National's sole remedy under the loan, if we do not repay the loan, is to require us to return those shares to National. Under the same agreement, National purchased 3,200,000 shares of Series A preferred stock and a warrant to purchase 1,700,000 shares of Foveon's Series B preferred stock.

In August 1998, National purchased 514,047 shares of Foveon's Series B preferred stock.

During the year ended June 30, 2000, we loaned Foveon a total of approximately $2.7 million in return for convertible promissory notes. The notes are convertible into shares of preferred stock in accordance with the defined terms, mature in ten years, and bear interest at rates ranging

from 6.5% to 6.85%, payable at maturity.

In August 2000, a new venture capital firm bought a 20% interest in Foveon for $21.0 million. In connection with the August 2000 financing, we received from Foveon 329,375 shares of Series B preferred stock and 114,590 shares of Series C preferred stock upon the automatic conversion of a portion of the promissory notes we hold. Also in August 2000, National received from Foveon 520,625 shares of Series B preferred stock and 476,844 shares of Series C preferred stock upon the conversion of similar notes. National also purchased 1,185,953 shares of Series B preferred stock upon exercise of a warrant. National cancelled a promissory note issued by Foveon as payment for the exercise price of the warrant.

In August 1997, Carver Mead, a founder and director of Foveon, purchased 350,000 shares of common stock of Foveon. In a December 2000 additional closing of the Series C preferred financing, Francis F. Lee, Federico Faggin, and Richard L. Sanquini purchased an aggregate of 113,715 shares of Foveon's Series C preferred stock out of a total of 3,979,418 shares of Series C preferred stock issued to date.

PRINCIPAL AND SELLING STOCKHOLDERS

The following table sets forth certain information regarding the beneficial ownership of our common stock on July 31, 2001 by

- each of our directors and executive officers;
- all of our directors and executive officers as a group; and
- each person or entity known by us to own more than 5% of our common stock, assuming the conversion of preferred stock into shares of common stock. See "Certain Relationships and Transactions — Financing Activities."

Except as otherwise indicated, each person named in the table has sole voting and investment power with respect to all common stock beneficially owned, subject to applicable community property laws. Except as otherwise indicated, each person may be reached at 2381 Bering Drive, San Jose, California 95131.

The percentages shown are calculated based on 17,747,755 shares of common stock outstanding on July 31, 2001. The numbers and percentages shown include the shares of common stock actually owned as of July 31, 2001 and the shares of common stock that the identified person or group had the right to acquire within 60 days of such date. In calculating the percentage of ownership, all shares of common stock that the identified person or group had the right to acquire within 60 days of July 31, 2001 upon the exercise of options are deemed to be outstanding for the purpose of computing the percentage of the shares of common stock owned by that person or group, but are not deemed to be outstanding for the purpose of computing the percentage of the shares of common stock owned by any other person or group.

Name of Beneficial Owner	Number of Shares Beneficially Owned	Percent Beneficially Owned	
		Before Offering	After Offering
Directors and Executive Officers:			
Federico Faggin(1)	1,333,104	7.4%	5.8%
Francis F. Lee(2)	525,000	3.0%	2.3%
Shawn P. Day, Ph.D.(3)	123,618	*	*
Thomas D. Spade(4)	101,236	*	*
Donald E. Kirby(5)	130,035	*	*
Russell J. Knittel(6)	95,514	*	*
Richard C. McCaskill(7)	49,438	*	*
Keith B. Geeslin(8)	2,148,783	12.1%	9.4%
Richard L. Sanquini(9)	48,264	*	*
Joshua C. Goldman	—	*	*
All directors and executive officers as a group (ten persons)	4,554,992	24.9%	19.5%
5% Stockholders:			
National Semiconductor Corporation(10)	2,666,667	15.3%	11.7%
Entities affiliated with Technology Venture Investors(11)	2,077,339	11.7%	9.1%
Entities affiliated with Sprout Group(12)	2,131,665	12.0%	9.4%
Entities affiliated with Oak Investment Partners(13)	1,653,967	9.3%	7.3%
Kleiner, Perkins, Caufield & Byers IV(14)	1,097,318	6.2%	4.8%
Entities affiliated with Delphi Ventures(15)	1,075,572	6.1%	4.7%
Carver Mead(16)	990,000	5.6%	4.4%

* Less than one percent.

(1) Includes 100,000 shares held by 1999 Faggin Trust fbo Marc Faggin, 100,000 shares held by 1999 Faggin Trust fbo Eric Faggin, and 100,000 shares held by 1999 Faggin Trust fbo Marzia Faggin. Includes 233,104 shares issuable upon exercise of vested stock options.

(2) Includes 4,000 shares held by Francis Lee as custodian for Grace Evelyn Lee and 4,000 shares held by Francis Lee as custodian for Christopher Thomas Lee. Of the 517,000 shares owned directly, 19,271 are subject to additional vesting requirements.

(3) Includes 33,618 shares issuable upon exercise of vested stock options.

(4) Includes 61,236 shares issuable upon exercise of vested stock options.

(5) Represents 130,035 shares issuable upon exercise of vested stock options.

(6) Includes 15,514 shares issuable upon exercise of vested stock options.

(7) Represents 49,438 shares issuable upon exercise of vested stock options.

(8) Includes 17,118 shares issuable upon exercise of vested stock options. Also includes 2,131,665 shares held by entities affiliated with Sprout Group as set forth in footnote 12 below. Mr. Geeslin is a general partner of the general partner of each of those entities. He disclaims beneficial ownership of these shares except to the extent of his pecuniary interest therein.

(9) Includes 23,264 shares issuable upon exercise of vested stock options.

(10) The address for National Semiconductor Corporation is 1090 Kifer Road, Sunnyvale, California 94086. Mr. Louis Chew exercises voting and dispositive power over these shares.

(11) Includes 1,612,686 shares held by Technology Venture Investors-3; 27,075 shares held by TVI Management-3; and 437,578 shares held by Technology Venture Investors-IV. The address for these entities is 2480 Sand Hill Road, Suite 101, Menlo Park, California 94025. Mr. Mark G. Wilson exercises voting and dispositive power over these shares.

(12) Includes 1,555,170 shares held by Sprout Capital V; 129,515 shares held by Sprout Technology Fund; and 332,595 shares held by Sprout Capital VI, L.P.; 102,983 shares held by DLJ Venture Capital Fund; and 11,402 shares held by DLJ Venture Capital Fund II. The address for these entities is 3000 Sand Hill Road, Building 3, Suite 170, Menlo Park, California 94025. Mr. Keith B. Geeslin exercises voting and dispositive power over these shares.

(13) Includes 1,581,855 shares held by Oak Investment Partners IV, Limited Partnership, and 72,112 shares held by Oak IV Affiliates Fund, Limited Partnership. The address for these entities is 525 University Ave., Palo Alto, California 94301. Mr. Bandel Carano, Ms. Ann Lamont, Mr. Edward Glassmeyer, and Mr. Gerald Gallagher exercise shared voting and dispositive power over these shares.

(14) The address for Kleiner, Perkins, Caufield & Byers IV is 2750 Sand Hill Road, Menlo Park, California 94025. Mr. Vinod Khosla exercises voting and dispositive power over these shares.

(15) Includes 3,196 shares held by Delphi BioInvestments, L.P.; 872 shares held by Delphi BioInvestments II, L.P.; 901,294 shares held by Delphi Ventures, L.P.; and 170,210 shares held by Delphi Ventures II, L.P. The address for these entities is 3000 Sand Hill Road, Building 1, Suite 135, Menlo Park, California 94025. Mr. James J. Bochnowski exercises voting and dispositive power over these shares.

(16) The address for Carver Mead is c/o Foveon, Inc., 3565 Monroe Street, Santa Clara, California 95051.

If the underwriters exercise their over-allotment option in full from the selling stockholders, the number of shares offered and the beneficial ownership of the selling stockholders will be as follows:

		Beneficial Ownership After Offering	
Selling Stockholders	Number of Shares Offered	Number of Shares	Percent

National Semiconductor Corporation	178,521	2,488,146	10.9%
Entities affiliated with Technology Venture Investors	139,068	1,938,271	8.5%
Entities affiliated with Sprout Group	142,705	1,988,960	8.7%
Entities affiliated with Oak Investment Partners	110,726	1,543,241	6.8%
Kleiner, Perkins, Caufield & Byers IV	73,460	1,023,858	4.5%
Entities affiliated with Delphi Ventures	72,005	1,003,567	4.4%
The Generics Group AG(1)	33,515	467,116	2.1%

(1) The Generics Group AG acquired its shares in connection with our acquisition of Absolute Sensors Limited in October 1999. The address for this entity is Harston Mill, Harston, Cambridge CB2 5NH, United Kingdom.

DESCRIPTION OF CAPITAL STOCK

Upon the completion of this offering, we will be authorized to issue 60,000,000 shares of common stock, $.001 par value, and 10,000,000 shares of undesignated preferred stock, $.001 par value. The following description of our capital stock is intended to be a summary and does not describe all provisions of our certificate of incorporation or bylaws or Delaware law applicable to us. For a more thorough understanding of the terms of our capital stock, you should refer to our certificate of incorporation and bylaws, which are included as exhibits to the registration statement of which this prospectus is a part.

Common Stock

As of June 30, 2001, there were 17,707,366 shares of common stock outstanding held by approximately 235 stockholders, which reflects the conversion into common stock of all outstanding shares of preferred stock, including the shares of Series A preferred stock issued in June 1986; the shares of Series B preferred stock issued in June 1987; the shares of Series C preferred stock issued in September 1989; the shares of Series D preferred stock issued in September 1990; the shares of Series E preferred stock issued in November 1994 and February 1995 and to be issued in connection with the warrant dated June 1995; and the shares of Series F preferred stock issued in November 1995 and February 1996. In addition, as of June 30, 2001, there were options outstanding to purchase 3,971,241 shares of common stock. Upon completion of this offering, there will be 22,707,366 shares of common stock outstanding, assuming no exercise of outstanding options under our stock plans.

The holders of common stock are entitled to one vote per share on all matters to be voted upon by stockholders. Subject to preferences that may be applicable to any outstanding preferred stock, holders of common stock are entitled to receive ratably dividends as may be declared by the board of directors out of funds legally available for that purpose. In the event of our liquidation, dissolution, or winding up, the holders of common stock are entitled to share ratably in all assets remaining after payment of liabilities and the liquidation preferences of any outstanding preferred stock. The common stock has no preemptive or conversion rights, other subscription rights, or redemption or sinking fund provisions. All outstanding shares of common stock are fully paid and non-assessable, and the shares of common stock to be issued upon completion of this offering will be fully paid and non-assessable.

Preferred Stock

Upon the closing of this offering, the following series of preferred stock will be converted:

- 496,095 outstanding shares of Series A preferred stock issued in June 1986 will be converted on a 3.3391594-for-1 basis into 1,656,537 shares of common stock;
- 871,428 outstanding shares of Series B preferred stock issued in June 1987 will be converted on a 3.0000171-for-1 basis into 2,614,296 shares of common stock;
- 545,455 outstanding shares of Series C preferred stock issued in September 1989 will be converted on a 1-for-1 basis into 545,455 shares of common stock;
- 2,314,284 outstanding shares of Series D preferred stock issued in September 1990 will be converted on a 1-for-1 basis into 2,314,284 shares of common stock;
- 2,887,703 outstanding shares of Series E preferred stock issued in November 1994 and February 1995 and 32,000 shares of Series E preferred stock issuable in connection with a warrant dated June 1995 will be converted on a 1-for-1 basis into 2,887,703 and 32,000 shares of common stock, respectively; and
- 1,055,242 shares of Series F preferred stock issued in November 1995 and February 1996 will be converted on a 1-for-1 basis into 1,055,242 shares of common stock.

Thereafter, the board of directors will have the authority, without further action by the stockholders, to issue up to 10,000,000 shares of preferred stock in one or more series and to designate the rights,

preferences, privileges, and restrictions of each series. The issuance of preferred stock could have the effect of restricting dividends on the common stock, diluting the voting power of the common stock, impairing the liquidation rights of the common stock, or delaying or preventing a change in control of our company, all without further action by the stockholders. Upon the closing of this offering, no shares of preferred stock will

be outstanding and we have no present plans to issue any shares of preferred stock.

Registration Rights

Pursuant to an amended and restated investors rights agreement entered into between us and holders of 11,105,517 shares of common stock issuable upon conversion of our preferred stock, we are obligated, under limited circumstances and subject to specified conditions and limitations, to use our best efforts to register the registrable shares.

We must use our best efforts to register the registrable shares

- if we receive written notice from holders of 42.5% or more of the registrable shares requesting that we effect a registration with respect to not less than 750,000 of the registrable shares (or a lesser number of registrable shares if the anticipated aggregate offering price would exceed $5.0 million, prior to underwriting discounts and commissions);

- if we decide to register our own securities (except in connection with this offering or certain offerings for employee benefit plans or acquisitions); or

- if (1) we are eligible to use Form S-3 (a shortened form of registration statement) and (2) we receive written notice from any holder of registrable shares requesting that we effect a registration on Form S-3 with respect to the registrable shares, the reasonable anticipated price to the public of which is not less than $500,000 (net of underwriting discounts or commissions).

However, in addition to certain other conditions and limitations, if requested to register registrable shares, we can delay registration for not more than 120 days. In any case where we decide to register our own securities pursuant to an underwritten offering, the managing underwriter may limit the registrable shares to be included in the registration.

We will bear all registration expenses other than underwriting discounts and commissions, except in the case of registrations on Form S-3 subsequent to the first two registrations on Form S-3. These registration rights terminate upon the holder being able to transfer all of his or her registrable shares pursuant to Rule 144.

SHARES ELIGIBLE FOR FUTURE SALE

Prior to this offering, there has been no market for our common stock. Sales of substantial amounts of our common stock in the public market could adversely affect the prevailing market price and impair our ability to raise equity capital in the future.

Upon completion of this offering, we will have 22,707,366 outstanding shares of common stock, based on 17,707,366 shares of common stock outstanding as of June 30, 2001 on an as converted basis. Of these shares, the shares sold in this offering, plus any shares sold upon exercise of the underwriters' overallotment option, will be freely tradable without restriction under the Securities Act, unless purchased by our "affiliates" as that term is defined in Rule 144 under the Securities Act. In general, affiliates include executive officers, directors, and 10% stockholders. Shares purchased by affiliates will remain subject to the resale limitations of Rule 144.

The remaining shares outstanding prior to this offering are restricted securities within the meaning of Rule 144. Restricted securities may be sold in the public market only if registered or if they qualify for an exemption from registration under Rules 144, 144(k), or 701 promulgated under the Securities Act, which are summarized below.

Our directors, executive officers, and certain stockholders have entered into lock-up agreements in connection with this offering, generally providing that they will not offer, sell, contract to sell or grant any option to purchase or otherwise dispose of our common stock or any securities exercisable for or convertible into our common stock owned by them for a period of 180 days after the date of this prospectus without the prior written consent of Bear, Stearns & Co. Inc. Despite possible earlier eligibility for sale under the provisions of Rules 144, 144(k), and 701, shares subject to lock-up agreements will not be salable until these agreements expire or are waived by Bear, Stearns & Co. Inc. These agreements are more fully described in "Underwriting." Taking into account the lock-up agreements, and assuming Bear, Stearns & Co. Inc. does not release stockholders from these agreements, the following shares will be eligible for sale in the public market at the following times:

- beginning on the effective date of this prospectus, the shares sold in this offering will be immediately available for sale in the public market and approximately shares will be eligible for sale pursuant to Rule 144(k), none of which are held by affiliates;

- beginning 90 days after the effective date of this prospectus, approximately shares will be eligible for sale pursuant to Rule 701 that are not subject to lock-up agreements; and

- beginning 180 days after the effective date of this prospectus, approximately shares will be eligible for sale subject to volume, manner of sale, and other limitations under Rule 144, of which are held by affiliates.

In general, under Rule 144 as currently in effect, after the expiration of the lock-up agreements, a person who has beneficially owned restricted securities for at least one year would be entitled to sell within any three-month period a number of shares that does not exceed the greater of the following:

- one percent of the number of shares of common stock then outstanding, which will equal about 227,000 shares immediately after this offering; or

- the average weekly trading volume of the common stock during the four calendar weeks preceding the sale.

Sales under Rule 144 are also subject to requirements with respect to manner of sale, notice, and the availability of current public information about us. Under Rule 144(k), a person who is not deemed to have been our affiliate at any time during the three months preceding a sale, and who has beneficially owned the shares proposed to be sold for at least two years, is entitled to sell his or her shares without complying with the manner of sale, public information, volume limitation, or notice provisions of Rule 144.

Rule 701, as currently in effect, permits our employees, officers, directors, and consultants who purchased shares pursuant to a written compensatory plan or contract to resell these shares in reliance

upon Rule 144, but without compliance with specific restrictions. Rule 701 provides that affiliates may sell their Rule 701 shares under Rule 144 without complying with the holding period requirement and that non-affiliates may sell their shares in reliance on Rule 144 without complying with the holding period, public information, volume limitation, or notice provisions of Rule 144.

In addition, we intend to file registration statements under the Securities Act as promptly as possible after the effective date of this offering to register shares issued upon the exercise of options and shares to be issued under our employee benefit plans. As a result, any options or rights exercised under the 1986 stock option plan and supplemental plan, 1996 stock option plan, the 2000 nonstatutory stock option plan, the 2001 incentive compensation plan, or any other benefit plan after the effectiveness of the registration statements will also be freely tradable in the public market. However, such shares held by affiliates will still be subject to the volume limitation, manner of sale, notice, and public information requirements of Rule 144 unless otherwise resalable under Rule 701. As of June 30, 2001, there were outstanding options for the purchase of 3,971,241 shares of common stock, of which options to purchase 956,138 shares were exercisable, and 3,316,877 shares of common stock have been previously issued upon exercise of options.

Also, beginning six months after the date of this offering, holders of 11,105,517 restricted shares will be entitled to registration rights on these shares for sale in the public market. See “Description of Capital Stock — Registration Rights.” Registration of these shares under the Securities Act would result in their becoming freely tradable without restriction under the Securities Act immediately upon effectiveness of the registration.

Transfer Agent and Registrar

The transfer agent and registrar for our common stock is American Stock Transfer & Trust Company. The transfer agent’s address is 40 Wall Street, 46th Floor, New York, New York 10005 and its telephone number is (718) 921-8259.

UNDERWRITING

Subject to the terms and conditions set forth in an underwriting agreement dated , 2001, each of the underwriters named below, through their representatives Bear, Stearns & Co. Inc., Banc of America Securities LLC, SG Cowen Securities Corporation and ABN AMRO Rothschild LLC, has severally agreed to purchase from us the aggregate number of shares of common stock set forth opposite its name below at the public offering price less the underwriting discount set forth on the cover page of this prospectus.

Underwriter	Number of Shares
Bear, Stearns & Co. Inc.	
Banc of America Securities LLC	
SG Cowen Securities Corporation	
ABN AMRO Rothschild LLC	
Total	

The underwriting agreement provides that the obligations of the several underwriters thereunder are subject to approval of certain legal matters by their counsel and to various other conditions. Under the underwriting agreement, the underwriters are obligated to purchase and pay for all of the above shares of common stock, other than those covered by the over-allotment option described below, if they purchase any of the shares.

The underwriters propose to initially offer some of the shares directly to the public at the offering price set forth on the cover page of this prospectus and some of the shares to dealers at this price less a concession not in excess of $ per share. The underwriters may allow, and dealers may re-allow, concessions not in excess of $ per share on sales to other dealers. After the initial offering of the shares to the public, the underwriters may change the offering price, concessions and other selling terms. The underwriters do not intend to confirm sales to any accounts over which they exercise discretionary authority.

The selling stockholders have granted the underwriters an option exercisable for 30 days from the date of the underwriting agreement to purchase up to 750,000 additional shares, at the offering price less the underwriting discount. The underwriters may exercise this option solely to cover over-allotments, if any, made in connection with this offering. To the extent underwriters exercise this option in whole or in part then each of the underwriters will become obligated, subject to conditions, to purchase a number of additional shares approximately proportionate to each underwriter’s initial purchase commitment as indicated in the preceding table.

We have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act.

Our directors, executive officers, and certain stockholders, who collectively hold a total of shares of common stock, have agreed, subject to limited exceptions, not to sell or offer to sell or otherwise dispose of any shares of common stock or securities convertible into or exercisable or exchangeable for our common stock, for a period of 180 days after the date of this prospectus, without the prior written consent of Bear, Stearns & Co. Inc., on behalf of the underwriters.

In addition, we have agreed that for a period of 180 days after the date of this prospectus we will not offer, sell or otherwise dispose of any shares of common stock, except for the shares offered in this offering

and any shares offered in connection with employee benefit plans, without the consent of Bear, Stearns & Co. Inc., on behalf of the underwriters.

Prior to this offering, there has been no public market for our common stock. Consequently, the initial offering price for the common stock will be determined by negotiations between us and the representatives of the underwriters. Among the factors to be considered in these negotiations will be:

- our results of operations in recent periods;
- estimates of our business potential;
- an assessment of our management;
- prevailing market conditions; and
- the prices of similar securities of generally comparable companies.

We have applied to have our common stock approved for quotation on the Nasdaq National Market under the symbol “SYNA.” We cannot assure you, however, that an active or orderly trading market will develop for our common stock or that our common stock will trade in the public markets subsequent to the offering at or above the initial offering price.

In order to facilitate the offering, the underwriters may engage in transactions that stabilize, maintain, or otherwise affect the price of the common stock during and after the offering. Specifically, the underwriters may over-allot or otherwise create a short position in the common stock for their own account by selling more shares of common stock than we have actually sold to them. The underwriters may elect to cover any short position by purchasing shares of common stock in the open market or by exercising the over-allotment option granted to the underwriters. In addition, the underwriters may stabilize or maintain the price of the common stock by bidding for or purchasing shares of common stock in the open market and may impose penalty bids, under which selling concessions allowed to syndicate members or other broker-dealers participating in the offering are reclaimed if shares of common stock previously distributed in the offering are repurchased in connection with stabilization transactions or otherwise. The effect of these transactions may be to stabilize or maintain the market price at a level above that which might otherwise prevail in the open market and these transactions may be discontinued at any time. The imposition of a penalty bid may also affect the price of the common stock to the extent that it discourages resales. No representation is made as to the magnitude or effect of these activities.

A prospectus in electronic format may be made available on Web sites maintained by one or more of the underwriters for sale to their online brokerage account holders. Internet distributions will be allocated by the underwriters that will make Internet distributions on the same basis as other allocations. Other than the prospectus in electronic format, the information on these Web sites is not part of this prospectus or the registration statement of which this prospectus forms a part, has not been approved or endorsed by us or any underwriter in its capacity as underwriter, and should not be relied upon by investors.

The underwriters have reserved for sale, at the initial public offering price, up to 250,000 shares of common stock for employees, directors, and other persons associated with us who express an interest in purchasing these shares of common stock in the offering. The number of shares available for sale to the general public in the offering will be reduced to the extent these persons purchase reserved shares. Any reserved shares not purchased by these persons will be offered by the underwriters to the general public on the same terms as the other shares offered in this offering.

The underwriters may, from time to time, engage in transactions with, and perform services for, us in the ordinary course of their business.

The following table shows the underwriting discount to be paid to the underwriters in connection with this offering. These amounts are shown assuming both no exercise and full exercise of the underwriters’ option to purchase additional shares of common stock.

		Total	
	Per Share	Without Over-Allotment Option	With Over-Allotment Option
Assumed public offering price	$	$	$
Underwriting discounts and commissions payable by us			
Underwriting discounts and commissions payable by the selling stockholders		—	

Proceeds, before expenses, to us	
Proceeds to selling stockholders	—

Other expenses of this offering, including the registration fees and the fees of financial printers, legal counsel, and accountants, payable by us are expected to be approximately $1,600,000.

LEGAL MATTERS

The validity of the common stock in this offering will be passed upon for us by Greenberg Traurig, LLP, Phoenix, Arizona. Certain legal matters in connection with this offering will be passed upon for the underwriters by Brobeck, Phleger & Harrison LLP, Palo Alto, California.

EXPERTS

The consolidated financial statements of Synaptics Incorporated as of June 30, 2000 and 2001, and for each of the three years in the period ended June 30, 2001, appearing in this prospectus and registration statement have been audited by Ernst & Young LLP, independent auditors, as set forth in their report thereon appearing elsewhere herein, and are included in reliance upon such report given on the authority of such firm as experts in accounting and auditing.

The financial statements of Foveon, Inc. (a development stage enterprise) as of July 1, 2000 and July 2, 1999 and for each of the years then ended and for the period from July 9, 1997 (inception) to July 1, 2000, have been included herein and in the registration statement in reliance upon the report of KPMG LLP, independent auditors, appearing elsewhere herein, and upon the authority of such firm as experts in accounting and auditing.

WHERE YOU CAN FIND ADDITIONAL INFORMATION

We have filed a registration statement on Form S-1 with the Securities and Exchange Commission relating to the common stock offered by this prospectus. This prospectus does not contain all of the information set forth in the registration statement and the exhibits and schedules to the registration statement. Statements contained in this prospectus as to the contents of any contract or other document referred to are not necessarily complete and in each instance we refer you to the copy of the contract or other document filed as an exhibit to the registration statement, each such statement being qualified in all respects by such reference. For further information with respect to Synaptics and the common stock offered by this prospectus, we refer you to the registration statement, exhibits, and schedules.

Anyone may inspect a copy of the registration statement without charge at the public reference facilities maintained by the SEC in Room 1024, 450 Fifth Street, N.W., Washington, D.C. 20549; the Chicago Regional Office, Suite 1400, 500 West Madison Street, Chicago, Illinois 60611; and the New York Regional Office, Suite 1300, 7 World Trade Center, New York, New York 10048. Copies of all or any part of the registration statement may be obtained from the Public Reference Section of the SEC at 450 Fifth Street, N.W., Washington, D.C. 20549, upon payment of the prescribed fees. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains a Web site at http://www.sec.gov that contains reports, proxy and information statements, and other information regarding registrants that file electronically with the SEC.

INDEX TO FINANCIAL STATEMENTS

REPORT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

The Board of Directors and Stockholders

Synaptics Incorporated

We have audited the accompanying consolidated balance sheets of Synaptics Incorporated as of June 30, 2000 and 2001, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended June 30, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Foveon, Inc., which statements reflect total assets of $2,982,000 as of July 1, 2000 and net losses of $13,807,000 for the year ended July 1, 2000. Those statements were audited by other auditors whose report has

been furnished to us, and our opinion, insofar as it relates to the losses from the affiliated company under the equity method and other data included for Foveon, Inc., is based solely on the report of the other auditors.

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

In our opinion, based on our audits and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Synaptics Incorporated at June 30, 2000 and 2001, and the consolidated results of its operations and its cash flows for each of the three years in the period ended June 30, 2001, in conformity with accounting principles generally accepted in the United States.

As discussed more fully in the fourth and fifth paragraphs of Note 1, Organization and Summary of Significant Accounting Policies, Synaptics Incorporated has reassessed its accounting for its ownership interest in an affiliated company and related note payable and, accordingly, has restated the financial statements for the fiscal years ended June 30, 1999 and 2000 to reflect this change.

/S/ ERNST & YOUNG LLP

San Jose, California

July 25, 2001

SYNAPTICS INCORPORATED

CONSOLIDATED BALANCE SHEETS

(in thousands, except for share and per share data)

	June 30,		Pro Forma Stockholders' Equity at June 30, 2001
	2000	2001	
			(unaudited)
Assets			
Current assets:			
Cash and cash equivalents	$ 6,507	$ 3,766	
Accounts receivable, net of allowances of $120 and $125 at June 30, 2000 and 2001, respectively	7,100	12,245	
Inventories	3,592	7,290	
Prepaid expenses and other current assets	351	651	
Total current assets	17,550	23,952	
Property and equipment, net	1,266	1,795	
Goodwill and other acquired intangible assets, net	1,723	939	
Other assets	122	471	
Total assets	$20,661	$27,157	
Liabilities and stockholders' equity			
Current liabilities:			
Accounts payable	$ 4,498	$ 7,289	
Accrued compensation	1,160	1,563	
Accrued warranty	479	509	
Other accrued liabilities	395	1,071	
Capital leases and equipment financing obligations	323	546	
Total current liabilities	6,855	10,978	
Capital leases and equipment financing obligations, net of current portion	200	329	
Note payable to related party	1,500	1,500	
Other liabilities	568	596	
Commitments and contingencies			
Stockholders' equity:			
Convertible preferred stock, no par value (aggregate liquidation preference — $18,778):			
Authorized shares — 12,000,000			

Issued and outstanding shares — 8,170,207 ($.001 par value; 10,000,000 shares authorized; no shares issued and outstanding, pro forma)	18,650	18,650	$ —
Common stock, no par value:			
Authorized shares — 25,000,000			
Issued and outstanding shares — 5,948,288 and 6,601,849 at June 30, 2000 and 2001 ($.001 par value; 60,000,000 shares authorized; 17,707,366 shares issued and outstanding, pro forma)	3,004	6,194	18
Additional paid-in capital	—	—	24,906
Deferred stock compensation	(138)	(1,649)	(1,649)
Notes receivable from stockholders	(633)	(906)	(906)
Accumulated deficit	(9,345)	(8,535)	(8,535)
Total stockholders' equity	11,538	13,754	$ 13,834
Total liabilities and stockholders' equity	$20,661	$27,157	

See accompanying notes.

SYNAPTICS INCORPORATED

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except for share and per share data)

	Years Ended June 30,		
	1999	**2000**	**2001**
Net revenue	$ 29,842	$ 43,447	$ 73,698
Cost of revenue(1)	17,824	25,652	50,811
Gross margin	12,018	17,795	22,887
Operating expenses			
Research and development(1)	4,851	8,386	11,590
Selling, general, and administrative(1)	5,534	7,407	9,106
Acquired in-process research and development	—	855	—
Amortization of goodwill and other acquired intangible assets	—	605	784
Amortization of deferred stock compensation	—	82	597
Total operating expenses	10,385	17,335	22,077
Operating income	1,633	460	810
Interest income	483	524	363
Interest expense	(149)	(159)	(183)
Income before income taxes and equity losses	1,967	825	990
Provision for income taxes	40	120	180
Equity in losses of an affiliated company	—	(2,712)	—
Net income (loss)	$ 1,927	$ (2,007)	$ 810
Net income (loss) per share:			
Basic	$ 0.46	$ (0.38)	$ 0.13
Diluted	$ 0.12	$ (0.38)	$ 0.04
Shares used in computing net income (loss) per share:			
Basic	4,147,159	5,222,738	6,133,866
Diluted	15,897,146	5,222,738	19,879,491
Pro forma net income per share:			
Basic			$ 0.05

Diluted	$ 0.04
Shares used in computing pro forma net income per share:	
Basic	17,207,403
Diluted	19,879,491

(1) Cost of revenue and research and development expense exclude $23,000 and $162,000, respectively, of amortization of deferred stock compensation for the year ended June 30, 2001. Selling, general, and administrative expense excludes $82,000 and $412,000 of amortization of deferred stock compensation for the years ended June 30, 2000 and 2001, respectively. These amounts have been aggregated and reflected as a single line item above.

See accompanying notes.

SYNAPTICS INCORPORATED

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(in thousands, except for share data)

	Convertible Preferred Stock		Common Stock		Deferred Stock Compensation	Notes Receivable From Stockholders	Accumulated Deficit
	Shares	Amount	Shares	Amount			
Balance at June 30, 1998 (as restated)	8,170,207	$18,650	4,018,867	$ 344	$ —	$ —	$ (9,265)
Issuance of common stock for option exercises	—	—	763,741	594	—	(493)	—
Net income and comprehensive income	—	—	—	—	—	—	1,927
Balance at June 30, 1999	8,170,207	18,650	4,782,608	938	—	(493)	(7,338)
Issuance of common stock for option exercises		—	542,100	512	—	(300)	—
Issuance of common stock for acquisition of Absolute Sensors Limited	—	—	652,025	1,302	—	—	—
Issuance of common stock for acquisition of sales representative workforce	—	—	37,500	75	—	—	—
Issuance of common stock to consultants for services rendered	—	—	31,835	55	—	—	—
Repayment of notes receivable from stockholders	—	—	—	—	—	62	—
Repurchase of common stock from employee upon retirement of notes receivable	—	—	(97,780)	(98)	—	98	—
Deferred stock compensation	—	—	—	220	(220)	—	—
Amortization of deferred stock compensation	—	—	—	—	82	—	—
Net loss and comprehensive loss	—	—	—	—	—	—	(2,007)
Balance at June 30, 2000	8,170,207	18,650	5,948,288	3,004	(138)	(633)	(9,345)

Issuance of common stock for option exercises	—	—	653,561	880	—	(273)	—
Deferred stock compensation	—	—	—	2,108	(2,108)	—	—
Amortization of deferred stock compensation	—	—	—	—	597	—	—
Stock compensation in connection with modification of terms of stock options	—	—	—	202	—	—	—
Net income and comprehensive income	—	—	—	—		—	810
Balance at June 30, 2001	8,170,207	$18,650	6,601,849	$ 6,194	$ (1,649)	$ (906)	$ (8,535)

[Additional columns below]

[Continued from above table, first column(s) repeated]

	Total Stockholders' Equity
Balance at June 30, 1998 (as restated)	$ 9,729
Issuance of common stock for option exercises	101
Net income and comprehensive income	1,927
Balance at June 30, 1999	11,757
Issuance of common stock for option exercises	212
Issuance of common stock for acquisition of Absolute Sensors Limited	1,302
Issuance of common stock for acquisition of sales representative workforce	75
Issuance of common stock to consultants for services rendered	55
Repayment of notes receivable from stockholders	62
Repurchase of common stock from employee upon retirement of notes receivable	—
Deferred stock compensation	—
Amortization of deferred stock compensation	82
Net loss and comprehensive loss	(2,007)
Balance at June 30, 2000	11,538
Issuance of common stock for option exercises	607
Deferred stock compensation	—
Amortization of deferred stock compensation	597
Stock compensation in connection with modification of terms of stock options	202
Net income and comprehensive income	810
Balance at June 30, 2001	$ 13,754

See accompanying notes.

SYNAPTICS INCORPORATED

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

Years Ended June 30,

	1999	2000	2001
Operating activities			
Net income (loss)	$ 1,927	$(2,007)	$ 810
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Acquired in-process research and development	—	855	—
Equity in losses of an affiliated company	—	2,712	—
Depreciation and amortization of property and equipment	535	642	876
Amortization of goodwill and other acquired intangible assets	—	605	784
Amortization of deferred stock compensation	—	82	597
Stock compensation in connection with modification of terms of stock options	—	—	202
Fair value of common stock issued to consultants for services rendered	—	55	—
Changes in operating assets and liabilities:			
Accounts receivable	(1,907)	(3,671)	(5,145)
Inventories	297	(1,549)	(3,698)
Prepaid expenses and other current assets	81	(114)	(300)
Other assets	18	(59)	(349)
Accounts payable	(802)	2,508	2,791
Accrued compensation	522	4	403
Accrued warranty	(34)	(121)	30
Other accrued liabilities	(431)	(292)	676
Other liabilities	95	310	28
Net cash provided by (used in) operating activities	301	(40)	(2,295)
Investing activities			
Purchase of property and equipment	(315)	(1,101)	(982)
Cash paid in connection with the acquisition of Absolute Sensors Limited	—	(1,450)	—
Advances to an affiliated company	—	(2,712)	—
Net cash used in investing activities	(315)	(5,263)	(982)

See accompanying notes.

SYNAPTICS INCORPORATED

CONSOLIDATED STATEMENTS OF CASH FLOWS — (Continued)

(in thousands)

	Years Ended June 30,		
	1999	2000	2001
Financing activities			
Payments on capital leases and equipment financing obligations	$ (285)	$ (397)	$ (570)
Proceeds from equipment financing	396	222	499
Proceeds from issuance of common stock upon exercise of options, net of notes receivable	101	212	607
Repayment of notes receivable from stockholders	—	62	—
Net cash provided by financing activities	212	99	536
Increase (decrease) in cash and cash equivalents	198	(5,204)	(2,741)
Cash and cash equivalents at beginning of period	11,513	11,711	6,507
Cash and cash equivalents at end of period	$11,711	$ 6,507	$ 3,766
Supplemental disclosures of cash flow information			
Retirement of equipment and related accumulated depreciation for property and equipment no longer in service	$ 1,143	$ —	$ 1,655
Cash paid for interest	54	59	76
Cash paid for taxes	—	160	—
Issuance of common stock to employees for notes receivable	493	300	273
Cancellation of note receivable from stockholders	—	98	—
Equipment acquired under a capital lease	—	—	423
Acquisition of Sales Representative work force through the issuance of common stock	—	150	—

Acquisition of Absolute Sensors Limited:			
Issuance of common stock	—	1,302	—
Equipment and furniture acquired	—	138	—
Accounts receivable acquired	—	100	
Liabilities assumed	—	520	—

See accompanying notes.

1. Organization and Summary of Significant Accounting Policies

Organization and Basis of Presentation

Synaptics Incorporated ("Synaptics" or the "Company") was founded in March 1986. The Company develops intuitive user interface solutions for intelligent electronic devices and products. The Company started shipping its current core product, the TouchPad, in 1995. The TouchPad is incorporated into a number of notebook computer product lines by original equipment manufacturers (OEMs) and contract manufacturers and sold throughout the world.

The consolidated financial statements include the financial statements of the Company and its wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated upon consolidation.

The Company's fiscal year ends on the last Saturday in June. For ease of presentation, the accompanying financial statements have been shown as ending on June 30 and calendar quarter ends for all annual, interim, and quarterly financial statement captions. The years ended June 30, 1999 and 2000 consisted of 52 weeks and the year ended June 30, 2001 consisted of 53 weeks.

Reassessment of Accounting for Ownership Interest in Affiliated Company

As described in more detail under Note 2, Ownership Interest in Affiliated Company and Note Payable to Related Party, during the year ended June 30, 1998, the Company acquired convertible preferred stock of Foveon, Inc. ("Foveon") in exchange for the contribution of technology and proceeds from a limited-recourse loan from National Semiconductor Corporation ("National"). Additionally, during the year ended June 30, 2000, the Company advanced to Foveon a total of $2,712,000 in return for convertible promissory notes. The Company had previously determined to account for the investment in Foveon on the cost basis. During the year ended June 30, 2000, the Company had written down the advances to Foveon due to an other-than-temporary decline in the fair value of convertible promissory notes.

Upon further review and based on discussions with the Securities and Exchange Commission ("SEC"), the Company has reassessed its accounting of the investment in Foveon and has determined that this investment should be accounted for on the basis of equity accounting pursuant to the guidance under Accounting Principles Board Opinion ("APB") No. 18 "The Equity Method of Accounting for Investments in Common Stock." As a result, the Company has recorded $1,500,000 as equity in losses of an affiliated company and interest expense of $82,000 on the related note payable for the year ended June 30, 1998 and has revised its total assets and accumulated deficit as of July 1, 1999. The Company has also recorded $2,712,000 as equity in losses of an affiliated company for the year ended June 30, 2000, which losses had previously been reflected as an investment write down, and additional interest expense of $95,000 and $100,000 during 1999 and 2000 (per share impact of $0.03 and nil per share, basic and diluted, respectively, during 1999, and $0.01 per share, basic and diluted, in 2000).

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Cash Equivalents

The Company considers highly liquid investments that mature within ninety days of the original purchase date to be cash equivalents. Cash and cash equivalents as of the balance sheet dates consisted primarily of money market accounts with financial institutions of good credit standing and governmental cash funds. Fair values of cash and cash equivalents approximated cost due to the short period of time to

maturity. The Company has no material unrealized gains or losses on cash equivalents at any of the balance sheet dates presented.

Concentration of Credit Risk

The Company sells its products primarily to contract manufacturers that provide manufacturing services to notebook computer OEMs. Credit is extended based on an evaluation of a customer's financial condition, and the Company generally does not require collateral. To date, credit losses have been within management's expectations, and the Company believes that an adequate allowance for doubtful accounts has been provided. One of the contract manufacturers for OEMs comprised 24% and 37% of the Company's accounts receivable balance at June 30, 2000 and 2001, respectively. One other individual contract manufacturer for OEMs comprised 13% and 13% of the Company's accounts receivable balance at June 30, 2000 and 2001, respectively. These contract manufacturers are located in Taiwan.

Other Concentrations

The Company's products include certain components that are currently single sourced. The Company believes other vendors would be able to provide similar components; however, the qualification of such vendors may require start-up time. In order to mitigate any adverse impacts from a disruption of supply, the Company attempts to maintain an approximate three-month supply of critical single-sourced components.

Revenue Recognition

Revenue from product sales is recognized upon shipment and transfer of title. The Company accrues for estimated sales returns, warranty costs, and other allowances at the time of shipment based on historical experience.

Inventories

Inventories are stated at the lower of cost (first-in, first-out method) or market and consisted of the following (in thousands):

	June 30,	
	2000	**2001**
Raw materials and work-in-process	$2,970	$6,938
Finished goods	622	352
	$3,592	$7,290

Equipment and Furniture

Equipment and furniture are stated at cost. Depreciation is computed using the straight-line method over the shorter of the estimated useful lives of the assets of three years or the lease term. During the years ended June 30, 1999 and June 30, 2001, the Company retired fully depreciated equipment and furniture at an original cost of $1,143,000 and $1,655,000, respectively. No such equipment and furniture was retired during the year ended June 30, 2000.

Foreign Currency Translation

The functional and reporting currency of the Company and its subsidiaries is the U.S. dollar in accordance with Statement of Financial Accounting Standards No. 52, "Foreign Currency Translation." Monetary assets and liabilities of the Company and its subsidiaries not denominated in the functional

currency are translated into U.S. dollar equivalents at the rate of exchange in effect on the balance sheet date. Non-monetary balance sheet accounts are measured and recorded at the rate in effect at the date of the translation. Revenue and expenses are translated at the weighted average exchange rate in the month that the transaction occurred. Remeasurement of monetary assets and liabilities that are not denominated in the functional currency are included currently in operating results. Translation gains (losses) included in operating results for the years ended June 30, 2000 and 2001, totaled ($94,000) and $ 29,000, respectively. The Company did not incur translation gains (losses) during fiscal year 1999. To date, the Company has not undertaken hedging transactions related to foreign currency exposure.

Goodwill and Other Acquired Intangible Assets

Goodwill represents the excess purchase price of net tangible and intangible assets acquired in business combinations over their estimated fair value. Other acquired intangible assets primarily represent developed and core technology and assembled workforce. Goodwill and other acquired intangible assets are being amortized on a straight-line basis over their estimated useful lives, which range from two to three years. The Company reviews goodwill and other acquired intangible assets to assess recoverability from future operations using undiscounted cash flows. Conditions that will cause the Company to undertake an impairment review include material adverse changes in operations or the Company's decision to abandon acquired products, services, or technologies. In management's opinion, no material impairment existed at June 30, 2000 or June 30, 2001. Accumulated amortization of goodwill and other acquired intangible assets was approximately $605,000 at June 30, 2000 and $1,389,000 at June 30, 2001.

Impairment of Long-Lived Assets

The Company evaluates long-lived assets, including goodwill and acquired intangible assets, for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable based on expected undiscounted cash flows attributable to that asset. The amount of any impairment is measured as the difference between the carrying value and the fair value of the impaired asset.

Ownership Interest in Affiliated Company

Investment consists of an ownership interest in the form of convertible preferred stock in a privately held development stage company. The Company accounts for the investment under the equity method in accordance with APB 18 and the Emerging Issues Task Force ("EITF") topic D-68 and issues No. 98-13 and No. 99-10. The Company considers its ownership of preferred stock and advances made to the affiliated company in determining the amount of equity losses to be recognized (see Note 2).

Segment Information

Synaptics has adopted the Financial Accounting Standards Board's ("FASB") Statement of Financial Accounting Standards No. 131, "Disclosure About Segments of an Enterprise and Related Information" ("FAS 131"). Synaptics operates in one segment, the development, marketing, and sale of intuitive user interface solutions for intelligent electronic devices and products.

Stock-Based Compensation

As permitted by FAS 123, "Accounting for Stock-Based Compensation," the Company applies APB25, "Accounting for Stock Issued to Employees," and related interpretations in accounting for its stock option plans and, accordingly, recognizes no compensation expense for stock option grants with an exercise price equal to the fair market value of the shares at the date of grant. The Company provides additional pro forma disclosures as required under FAS 123.

Options granted to consultants and other nonemployees are accounted for at fair value determined by using the Black-Scholes method in accordance with EITF Consensus No. 96-18, "Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or In Conjunction with Selling, Goods or Services." These options are subject to periodic revaluation over their vesting term, if any. The assumptions used to value stock-based awards to consultants and non-employees are similar to those used for employees, except that a volatility of 0.8 was used. (See Note 6 for pro forma disclosure of stock-based compensation pursuant to FAS 123).

Warranty

The Company, upon product shipment, provides for estimated warranty costs to repair or replace products for a period of twelve months from the date of sale. To date, warranty costs have been within management's expectations and have not been material.

Advertising Expense

All advertising costs are expensed as incurred. The advertising costs for the year ended June 30, 2001 amounted to $322,000. Advertising costs for the years ended June 30, 1999 and 2000 were insignificant.

Comprehensive Income (Loss)

Comprehensive income includes all changes in stockholders' equity during a period, except those resulting from investments by owners and distributions to owners. Other comprehensive income (loss) comprises unrealized gains and losses, on available-for-sale securities, which have been immaterial to date. As a result, comprehensive income (loss) approximates net income (loss) for all periods presented.

Income Taxes

The Company accounts for income taxes in accordance with the liability method. Under this method, deferred tax assets and liabilities are measured based on differences between the financial reporting and tax basis of assets and liabilities using enacted tax rates and laws that will be in effect when differences are expected to reverse.

Research and Development

Costs to develop Synaptics' products, which include the costs incurred to design interface solutions for customers prior to the customers incorporating those solutions into their products, are expensed as incurred in accordance with FAS 2 "Accounting for Research and Development Costs," which establishes accounting and reporting standards for research and development costs.

The Company accounts for software development costs in accordance with the FAS 86 "Accounting for the Costs of Computer Software to be Sold, Leased, or Otherwise Marketed," which requires capitalization of certain software development costs once technological feasibility for the software component is established, and research and development activities for the hardware component are completed. Based on Synaptics' development process, the time period between the establishment of technological feasibility and completion of the hardware component and the release of the product is short and capitalization of internal development costs has not been material to date.

Fair Values of Financial Instruments

The fair values of the Company's cash equivalents, accounts receivable, prepaid expenses and other current assets, and accounts payable and accrued liabilities approximate their carrying values due to the short-term nature of those instruments.

Net Income (Loss) Per Share

Basic and diluted net income (loss) per share amounts are presented in conformity with the FAS 128, "Earnings Per Share," for all periods presented. In accordance with FAS 128, basic and diluted net loss per share amounts and basic net income per share amounts have been computed using the weighted-average number of shares of common stock outstanding during each period, less shares subject to repurchase. Diluted net income per share amounts also include the effect of potentially dilutive securities, including stock options, warrants and convertible preferred stock, when dilutive. Pro forma basic and diluted net income per share amounts, as presented in the statements of operations, have

been computed as described above and also give effect, under SEC guidance, to the conversion of the convertible preferred stock (using the as if converted method) from the original date of issuance.

Recent Accounting Pronouncements

In July 2001, the FASB issued FAS 141 "Business Combinations" and FAS 142 "Goodwill and Other Intangible Assets". FAS 141 eliminates the pooling-of-interests method of accounting for business combinations except for qualifying business combinations that were *initiated* prior to July 1, 2001. FAS 141 further clarifies the criteria to recognize intangible assets separately from goodwill. The requirements of FAS 141 are effective for any business combination accounted for by the purchase method that is completed after June 30, 2001 (i.e., the acquisition date is July 1, 2001 or after). Under FAS 142, goodwill and indefinite lived intangible assets are no longer amortized but are reviewed annually (or more frequently if impairment indicators arise) for impairment. Separable intangible assets that are not deemed to have an indefinite life will continue to be amortized over their useful lives. The Company will adopt FAS 141 and FAS 142 on July 1, 2001. The adoption is not expected to have any material adverse impact on the Company's financial position or results of its operations.

Reclassification of Prior Year Balances

Certain reclassifications have been made to prior years' financial statements to conform to the current year presentation.

2. Ownership Interest in Affiliated Company and Note Payable to Related Party

During the year ended June 30, 1998, the Company entered into agreements with National Semiconductor Corporation ("National"), a related party, with respect to the formation of a development stage company, Foveonics, Inc. (now known as Foveon, Inc.), which was formed to develop and produce digital imaging products. The Company contributed technology for which it had no accounting basis for a 30% interest in Foveon, Inc. ("Foveon") in the form of voting convertible preferred stock. Under the agreements, the Company had the right to acquire additional shares of convertible preferred stock at a specified price in exchange for a limited-recourse loan from National. National loaned Synaptics $1,500,000 under the limited-recourse note, which Synaptics utilized to purchase additional preferred shares of Foveon which increased the Company's ownership interest in Foveon to 43%. The note matures in 2007 and bears interest at 6.0%. If the note and related accrued interest is not repaid, National's sole remedy under the loan is to require Synaptics to return to National a portion of Foveon shares purchased with the proceeds of the loan and held by Synaptics.

During the year ended June 30, 1998, the Company recorded its share of losses incurred by Foveon under the equity accounting method (see Note 1) on the basis of its proportionate ownership of voting convertible preferred stock and reduced the carrying value of this equity investment to nil as the Company's share of losses incurred by Foveon exceeded the carrying value of the investment. No equity losses were recorded during the year ended June 30, 1999 as the Company did not have any carrying value associated with the investment.

During the year ended June 30, 2000, the Company advanced to Foveon a total of $2,712,000 in return for convertible promissory notes. The notes were convertible into shares of Foveon preferred stock in accordance with the defined terms, had a term of ten years, and bore interest at rates ranging from 6.5% to 6.85%, payable at maturity. During the year, the Company recorded its share of losses incurred by Foveon on the basis of its proportionate share of funding provided to Foveon by the Company and National and accordingly recorded additional equity losses limited to the then maximum carrying value of the Company's total investment, which was $2,712,000 including the ownership of convertible debt securities issued by Foveon (see Note 1). Accordingly, as of June 30, 2000 and 2001, the carrying value of the Company's investment in Foveon had been reduced to nil as the Company's share of losses incurred by Foveon exceeded the carrying value of the investment. The Company is not obligated to provide additional funding to Foveon.

The following is a summary of Foveon's financial information as of June 30, 2000 and 2001 and for the years ended June 30, 1999, 2000, and 2001 (in thousands):

	June 30,		
	1999	**2000**	**2001**
			(unaudited)
Current assets		$ 1,879	$ 10,128
Total assets		2,982	11,070
Current liabilities		1,808	2,594
Total liabilities		17,560	2,594
Net loss	$7,927	13,807	13,465

In August 2000, the promissory notes held by the Company and related accrued interest were automatically converted into 443,995 shares of Foveon preferred stock in connection with an equity financing completed by Foveon.

In connection with the issuance of the convertible promissory notes, the Company also received warrants to purchase 106,718 shares of Foveon Series B preferred stock and warrants to purchase 22,918 shares of Foveon Series C preferred stock at exercise prices of $5.88 and $6.76 per share, respectively, with expiration dates ranging from November 2004 to March 2005. As of June 30, 2001, none of these warrants had been exercised by the Company. The holders of Series A, B, and C of Foveon preferred stock have liquidation preferences of up to $1.09, $5.88, and $6.76 per share, respectively. The preferred shares are convertible into common stock at any time at the option of the stockholders and these shares will automatically convert into common shares upon a firm underwritten public offering of Foveon common stock for proceeds of at least $20 million and a pre-offering market capitalization of at least $225 million. The voting rights of preferred stock were restricted as to the election of board of directors and certain protective provisions with respect to the sale of Foveon or substantially all the assets of Foveon. The preferred

stockholders also have the right of first refusal in connection with the purchase of new securities to be offered by Foveon.

3. Acquisitions

Acquisition of Sales Representative Workforce

In May 1999, the Company's Board of Directors approved the establishment of a branch in Taiwan. On June 1, 1999, the Company entered into an employee transfer agreement with an outside sales agent (the "agent") to transfer certain of the agent's employees to the Company's subsidiary. In consideration for the transfer of the assembled workforce, the Company entered into a restricted stock purchase agreement (the "Agreement") with the agent.

The Agreement required the Company to issue 37,500 fully paid shares of common stock to the agent on the closing date of the agreement and also required the Company to place an additional 37,500 shares in escrow. The escrow shares are to be released to the agent in December 2001, provided that the agent fulfills the covenant not to solicit any employee or consultant for two years from the transfer of the agent's employee to the Company. The Company recorded the acquisition of assembled sales representative workforce as an intangible asset in the amount of $150,000, representing the fair value of the total stock-based consideration, which is being amortized on a straight–line basis over thirty months.

The Company was also obligated to pay the agent royalties on net sales in Taiwan between July 1, 1999 and December 31, 1999 and certain administrative services expenses for a period of three months after the closing of the Agreement. Royalties paid to the agent for the period from July 1, 1999 through December 31, 1999 totaled $202,000 and were expensed in the period in which such cost was incurred. Administrative expenses paid to the agent for the required three-month period were not material.

Acquisition of Absolute Sensors Limited

On October 26, 1999, the Company completed the acquisition of Absolute Sensors Limited (ASL), now known as Synaptics (UK) Limited. ASL, a United Kingdom-based company, is a developer of inductive sensing technology. The Company acquired all of the outstanding shares and certain assets of ASL in exchange for approximately $1,450,000 in cash and 652,025 shares of the Company's common stock. The total purchase price of ASL, including acquisition-related costs of approximately $232,000, was $3,103,000. The total purchase price was allocated by the Company based on available information with respect to the fair value of assets acquired and liabilities assumed as follows (in thousands):

Acquired core technology	$ 201
Acquired in-process research and development	855
Acquired workforce	160
Purchased patents	154
Goodwill	1,663
Net book value of acquired assets and liabilities, which approximates fair value	70
Total purchase price	$3,103

The purchase price allocation performed by the management resulted in a $855,000 in-process research and development charge related to the value of ASL's 3D position-sensing technology. The value of acquired in-process research and development represents the appraised value of technology in the development stage that had not yet reached economic and technological feasibility. In reaching this determination, the Company used a present value income approach and considered, among other factors, the stage of development of each product, the time and resources needed to complete each product, and expected income and associated risks. The stage of completion was determined by estimating the costs and time incurred and the milestones completed to date relative to the time and costs incurred to develop the in-process technology into a commercially viable technology or product. The estimated net present value of cash flows was based on incremental future cash flows from revenue expected to be generated by the

technology or product being developed. The core technology, goodwill, and other intangibles are being amortized on a straight-line basis over periods from two to three years, the estimated useful lives of these acquired assets.

Under the agreement, the Company is obligated to issue an aggregate of up to an additional 200,000 shares of its common stock to ASL shareholders as additional purchase consideration if the sale of the Company's products incorporating ASL technology reach a certain defined volume within a period of twenty-four months after the acquisition. As of June 30, 2001, no additional shares have been issued because ASL's technology has not been fully developed and the Company has not sold any products that incorporate ASL's technology.

This acquisition was accounted for as a purchase, and accordingly, the results of operations of ASL subsequent to October 26, 1999 are included in the Company's consolidated statements of operations. Unaudited pro forma net loss of $242,000 ($0.05 per share) and $2,140,000 ($0.39 per share) for the years ended June 30, 1999 and 2000, respectively, represent the combined net loss as if the acquisition had occurred at

the beginning of these years and includes the amortization of goodwill and other acquired intangible assets but excludes the charge for acquired in-process research and development as it is nonrecurring. ASL did not generate any revenue from external customers during these periods, and accordingly, pro forma revenue has not been disclosed separately.

Goodwill and other acquired intangible assets consisted of the following (in thousands):

	June 30,	
	2000	2001
Acquired core technology	$ 201	$ 201
Acquired workforce	160	160
Acquired sales representatives	150	150
Purchased patents	154	154
Goodwill	1,663	1,663
	2,328	2,328
Accumulated amortization	(605)	(1,389)
	$1,723	$ 939

4. Property and Equipment

Property and equipment consisted of the following (in thousands):

	June 30,	
	2000	2001
Equipment	$ 3,267	$ 3,029
Furniture	402	390
	3,669	3,419
Accumulated depreciation and amortization	(2,403)	(1,624)
Property and equipment, net	$ 1,266	$ 1,795

5. Leases and Equipment Financing Obligations

Operating Leases

The Company leases its domestic facility under an operating lease that expires on May 31, 2005. Total rent expense, recognized on a straight-line basis, was approximately $389,000, $583,000, and $708,000 for the years ended June 30, 1999, 2000, and 2001, respectively.

Equipment Financing Obligations

Through June 30, 2001 the Company purchased a total of $618,000 of equipment under an equipment financing line. At June 30, 2000 and 2001, the outstanding balance under this line was approximately $392,0000 and $184,000, respectively. Obligations under this facility bear interest at rates ranging between 7.79% and 8.89% per year and are payable monthly through September 2003 and are subject to certain financial covenants. Assets acquired under this arrangement secure the related obligations.

The Company entered into a $750,000 equipment financing line agreement during the year ended June 30, 2001. At June 30, 2001, the outstanding balance under this line approximated $411,000. This obligation bears interest at 8.25% per year and is payable monthly through November 2003 and is subject to certain financial covenants. Assets acquired under this arrangement secure the related obligations.

Capital Leases

The Company also leases certain equipment under noncancelable lease agreements that are accounted for as capital leases. Equipment acquired under capital leases aggregated approximately $1,000,000 and $549,000 at June 30, 2000 and 2001, respectively. Amortization expense related to assets under capital leases is included in depreciation expense. At June 30, 2000 and 2001, the outstanding balance under these capital leases approximated $131,000 and $280,000, respectively.

The aggregate future minimum rental commitments as of June 30, 2001 for noncancelable operating leases and capital and equipment financing obligations with initial or remaining terms in excess of one year are as follows (in thousands):

	Operating Leases	Capital Leases and Equipment Financing Obligations
2002	$ 718	$ 596
2003	692	267
2004	709	78
2005	667	—
2006	—	—
Total minimum lease payments	$ 2,786	941
Less amounts representing interest		66
Present value of net minimum lease payments		875
Less portion due within one year		546
		$ 329

6. Stockholders' Equity

Convertible Preferred Stock

The Company has six classes of convertible preferred stock outstanding that are designated as Series A, B, C, D, E, and F. The Series A, B, C, D, E, and F convertible preferred stock are entitled to annual noncumulative cash dividends, when and if declared by the Board of Directors, of $0.10, $0.14, $0.088, $0.14, $0.25, and $0.45 per share, respectively, prior to the payment of any dividends on common stock. There were no dividends declared or payable at June 30, 2001.

Each share of Series A, B, C, D, E, and F convertible preferred stock may be converted into common stock at the option of the holder. Series A, B, C, D, E, and F convertible preferred stock are convertible into 3.34, 3.00, 1.00, 1.00, 1.00, and 1.00 shares of common stock, respectively. Each share of Series A, B, C, D, E, and F convertible preferred stock will be automatically converted into shares of common stock upon the closing of a public offering of the Company's common stock at a price per share of at least $4.50 and an aggregate offering price of at least $7,500,000. As of June 30, 2001, 11,105,517 shares of common stock are reserved for issuance upon the conversion of the Series A, B, C, D, E, and F convertible preferred stock and warrants.

Each preferred share has voting rights equal to the number of common shares into which it is convertible. Upon liquidation, the holders of the Series A, B, C, D, E, and F convertible preferred stock are entitled to receive $1.28, $1.75, $1.10, $1.75, $2.50, and $4.50 per share, respectively, plus any declared but unpaid dividends, before any distribution may be made to the holders of common shares. The aggregate liquidation preference at June 30, 2000 and 2001 was $18,778,000.

Information with respect to convertible preferred stock at June 30, 2001 is as follows:

	Issued and Designated Shares	Outstanding Shares	Liquidation Preference
			(in thousands)
Series A	496,095	496,095	$ 635
Series B	871,428	871,428	1,525
Series C	545,455	545,455	600
Series D	2,314,284	2,314,284	4,050
Series E	2,887,703	2,887,703	7,219
Series F	1,055,556	1,055,242	4,749
	8,170,521	8,170,207	$ 18,778

Stock-Based Compensation

During 1986, 1996, 2000, and 2001, the Company adopted stock option plans (the "Plans") under which employees and directors may be granted incentive stock options or nonqualified stock options to purchase up to a total of 7,050,000 shares of the Company's common stock at not less than 100% or 85% of the fair value, respectively, on the date of grant as determined by the Board of Directors.

Options issued under the Plans generally vest 25% at the end of twelve months from the vesting commencement date and approximately 2%

each month thereafter or 100% at the end of forty-eight months from the vesting commencement date. Options not exercised ten years after the date of grant are canceled.

The 1986 Stock Option Plan expired by its terms with respect to any future option grants effective November 1996. At June 30, 2001, all shares available for issuance are pursuant to the 1996 Stock Option Plan and 2000 Nonstatutory Stock Option Plan.

In May 1998, the Board of Directors authorized the Company to reprice options granted to all employees (except certain executive officers with grants that contained accelerated vesting provisions) having an exercise price greater than $1.00 for options with an exercise price of $1.00 (the fair value of the Company's stock on June 30, 1998 when the exchange was effected). The repricing was effective June 30, 1998 through July 10, 1998. Under the terms of this stock option repricing, no portion of any repriced option was exercisable until December 31, 1998, but normal vesting schedules were not impacted. Options representing the right to purchase 455,000 shares of common stock were repriced.

During the year ended June 30, 2000, the Company issued 31,835 shares of common stock to vendors and consultants in exchange for services rendered to the Company. The fair value of $55,000 assigned to the shares was based on the Company's estimate of the fair value of the common stock. The fair value of such shares was amortized over the period in which the services were rendered to the Company. No shares of common stock were issued to vendors or consultants during the year ended June 30, 2001.

During the years ended June 30, 2000 and 2001, the Company granted options for the purchase of 52,500 and 17,000 shares of common stock, respectively, to consultants and advisors of the Company, in consideration for services, at an exercise price of $2.50 per share. These options became vested and exercisable upon achievement of predetermined milestones and accordingly were subject to periodic re-measurement over the vesting period of six months. The Company recorded deferred stock compensation of approximately $135,000 and $168,000 for the years ended June 30, 2000 and 2001, respectively, representing the fair value of stock options on the respective grant dates, which was computed on the basis of Black-Scholes methodology using the valuation inputs similar to those used for employees except for the use of contractual life of the options instead of the expected life. The Company recorded compensation expense of approximately $80,000 and $223,000 for the years ended June 30, 2000 and 2001, respectively, related to the amortization of deferred compensation for these options. These options became fully vested during the year ended June 30, 2001.

The Company also recorded compensation charges of $202,000 for the year ended June 30, 2001 in connection with the modification of terms of stock options granted to certain employees, which modification related to the acceleration of vesting upon termination of employment and exercisability of the option for the aggregate number of 73,750 shares. The compensation expense was computed on the basis of intrinsic value representing the difference between the option exercise price and the deemed fair value of underlying common stock on the respective date of modification of terms. The underlying options had exercise prices ranging from $2.00 to $2.50 per share. As of June 30, 2001, all of the options were fully vested and had been exercised.

The following table summarizes option activity for the years ended June 30, 2000 and 2001:

		Options Outstanding	
	Shares Available	Number of Shares	Weighted Average Exercise Price
Balance at June 30, 1998	271,795	2,579,838	$ 1.48
Additional shares authorized	750,000	—	
Options granted	(1,767,000)	1,767,000	$ 1.18
Options exercised	—	(763,741)	$ 0.78
Options canceled	1,009,500	(1,267,806)	$ 1.56

		Options Outstanding	
	Shares Available	Number of Shares	Weighted Average Exercise Price
Balance at June 30, 1999	264,295	2,315,291	$ 1.13
Additional shares authorized	1,750,000	—	
Options granted	(1,951,410)	1,951,410	$ 2.27
Options exercised	—	(542,100)	$ 1.06

Options canceled	224,581	(224,581)	$ 1.27
Balance at June 30, 2000	287,466	3,500,020	$ 1.77
Additional shares authorized	1,600,000	—	
Options granted	(1,651,272)	1,651,272	$ 4.24
Options exercised	—	(653,561)	$ 1.35
Options cancelled	506,490	(526,490)	$ 2.04
Balance at June 30, 2001	742,684	3,971,241	$ 2.81

The weighted average grant date fair value of options was $0.26, $0.61, and $2.25 for the years ended June 30, 1999, 2000, and 2001, respectively.

The following table summarizes stock options outstanding at June 30, 2001:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$0.20	32,000	0.16	$ 0.20	32,000	$ 0.20
$0.60	20,000	3.95	$ 0.60	20,000	$ 0.60
$1.00	730,748	7.12	$ 1.00	349,337	$ 1.00
$2.00	809,526	8.11	$ 2.00	366,437	$ 2.00
$2.50	882,227	9.27	$ 2.50	156,372	$ 2.50
$2.90 – $3.00	793,250	9.07	$ 2.99	16,436	$ 3.00
$3.50 – $4.50	235,000	9.14	$ 3.60	15,556	$ 3.50
$5.50 – $6.50	242,500	9.52	$ 5.91	—	—
$8.50	225,990	9.75	$ 8.50	—	—
0.20 – $8.50	3,971,241	8.53	$ 2.81	956,138	$ 1.66

At June 30, 2000, 811,989 shares were exercisable at a weighted average exercise price of $1.05.

The Company has elected to follow APB Opinion No. 25 and related interpretations in accounting for its employee stock options because, as discussed below, the alternative fair value accounting provided for under FAS 123 requires use of option valuation models that were not developed for use in valuing employee stock options. When the exercise price of the Company's employee stock options equals the fair value of the underlying stock on the date of grant, no compensation expense is recognized.

Pro forma information regarding net income (loss) has been determined as if the Company had accounted for its employee stock options under the fair value method of FAS 123 during the years ended

June 30, 1999, 2000, and 2001. The fair value for these options was estimated at the date of grant using the minimum value method with the following weighted average assumptions:

	Years Ended June 30,		
	1999	2000	2001
Expected volatility	N/A	N/A	N/A
Expected life of options in years	5	5	5
Risk-free interest rate	4.78%	6.29%	5.65%
Expected dividend yield	0	0	0

The option valuation models were developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions, including the expected life of the option. Because the Company's employee stock options have characteristics significantly different from those of traded options and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of the Company's employee stock options.

Had compensation cost for the Company's stock-based compensation plans been determined based on the fair value at the grant dates for awards under those plans consistent with the method of FAS 123, pro forma income (loss) would be as follows:

	Years Ended June 30,		
	1999	2000	2001
	(in thousands, except for per share data)		
Net income (loss)			
As reported	$ 1,927	$ (2,007)	$ 810
Pro forma	$ 1,580	$ 2,432	$ 453
Net income (loss) per share — Basic			
As reported	$ 0.46	$ (0.38)	$ 0.13
Pro forma	$ 0.38	$ (0.47)	$ 0.07
Net income (loss) per share — Diluted			
As reported	$ 0.12	$ (0.38)	$ 0.04
Pro forma	$ 0.10	$ (0.47)	$ 0.02

Deferred Compensation

Synaptics recorded deferred stock compensation of $85,000 and $1,940,000 during the years ended June 30, 2000 and 2001, respectively, representing the aggregate difference between the exercise prices of options granted to employees and the deemed fair values for common stock subject to the options as of the respective measurement dates. These amounts are being amortized by charges to operations, on a straight-line basis, over the vesting periods of the individual stock options. During the years ended June 30, 2000 and 2001, the Company recorded $2,000 and $374,000, respectively, of amortization expense related to deferred stock compensation.

Warrants

In connection with certain financing transactions during 1995 the Board of Directors authorized the issuance of warrants to purchase 32,000 shares of the Company's Series E preferred stock at an exercise price of $2.50 per share. The warrants expire on May 31, 2002. The grant date fair value of the warrants for financial reporting purposes was determined to be immaterial.

Shares Reserved for Future Issuance

Synaptics has reserved shares of common stock for future issuance as follows:

	June 30, 2001
Convertible preferred stock, including effect of preferred stock warrants	11,105,517
Stock options outstanding	3,971,241
Stock options, available for grant	742,684
Shares issuable under acquisition agreements subject to future performance	237,500
Total	16,056,942

7. Notes Receivable from Stockholders

During the years ended June 30, 1999 and 2000, the Company received $493,000 and $300,000, respectively, of full-recourse notes receivable from certain employees, which notes bear interest at rates ranging from 4.5% to 6.12%, in consideration for stock issued upon the exercise of stock options. During the year ended June 30, 2001, the Company received $200,000 of full-recourse and $73,000 of non-recourse notes receivable from certain employees in consideration for stock issued upon the exercise of stock options. These notes bear interest at rates ranging from 6.1% to 6.25%. The notes and accrued interest, which are compounded semiannually, become due over the period from December 2002 to October 2009 or upon termination of employment, whichever is earlier. As of June 30, 2000 and 2001, the principal amounts outstanding amounted to $633,000 and $906,000, respectively. The non-recourse notes receivable were issued in connection with fully vested and exercisable stock options. The Company recorded compensation expense of approximately $109,000 computed on the basis of the intrinsic value of the options on the date of the exercise of the stock options and issuance of the notes (see Note 6).

8. Employee benefit plans

401(k) Plan

The Company has a 401(k) Retirement Savings Plan for full-time employees (the "Plan"). Under the Plan, eligible employees may contribute a maximum of 25% of their net compensation or the annual limit of $10,500 permitted by law. The Company does not provide any matching funds.

2001 Employee Stock Purchase Plan

The Company adopted the 2001 Employee Stock Purchase Plan (the "Purchase Plan") in February 2001. The Purchase Plan becomes effective on the effective date of the registration statement for an initial public offering ("IPO") of the Company's common stock. The Purchase Plan allows employees to designate up to 15% of their total compensation to purchase shares of common stock at 85% of fair market value. The Company has reserved 1,000,000 shares of common stock for issuance under the Purchase Plan.

9. Income Taxes

The provision for income taxes consists of the following (in thousands):

	Years Ended June 30,		
	1999	**2000**	**2001**
Current:			
Federal	$ 40	$ 58	$ 475
State	—	1	1
Foreign	—	61	104
Total current	40	120	580
Deferred:			
Federal	—	—	(400)
State	—	—	—
Foreign	—	—	—
Total deferred	—	—	(400)
Total provision	$ 40	$ 120	$ 180

Income (loss) before provision for income taxes and equity losses consisted of the following (in thousands):

	Years Ended June 30,		
	1999	**2000**	**2001**
U.S.	$1,967	$ 2,033	$1,371
Foreign	—	(1,208)	(381)
Total	$1,967	$ 825	$1,990

The provision (benefit) for income taxes differs from the federal statutory rate as follows (in thousands):

	Years Ended June 30,		
	1999	**2000**	**2001**
Provision (benefit) at U.S. federal statutory rate	$ 688	$ 289	$ 347
Unbenefited losses (utilization of net operating losses)	(746)	(794)	(236)
Acquired in-process research and development	—	299	—
Goodwill amortization	—	176	263
Research and development credit	—	—	(536)
Alternative minimum tax	40	59	—
Other	58	91	342
	$ 40	$ 120	$ 180

Significant components of the Company's deferred tax assets are as follows (in thousands):

	June 30,	
	2000	2001
Net operating loss carryforwards	$ 280	$ —
Research and development credit carryforwards	1,575	1,025
Equity in losses of an affiliated company	1,085	1,085
Other	1,316	1,739
Valuation allowance	(4,256)	(3,434)
Total deferred assets	—	415
Deferred Tax Liabilities:		
Foreign income repatriation	—	(15)
Total deferred tax liabilities	—	(15)
Net Deferred Tax Asset	$ —	$ 400

Realization of deferred tax assets is dependent on the Company generating sufficient taxable income in future years to obtain benefit from the reversal of temporary differences and from tax credit carryforwards. At June 30, 2001, the Company had provided a valuation allowance of $3,434,000 against most of its tax assets due to uncertainty surrounding their realization. The valuation allowance decreased by approximately $800,000 during the fiscal year ended June 30, 2001 and increased by approximately $700,000 during the fiscal year ended June 30, 2000 and decreased by approximately $700,000 during the fiscal year ended June 30, 1999.

As of June 30, 2001, the Company also had federal research and development tax credit carryforwards of approximately $700,000. The credit carryforwards will expire at various dates from 2012 through 2021 if not utilized.

10. Net Income (Loss) Per Share

The following table presents the computation of basic and diluted and pro forma basic and diluted net income (loss) per share:

	Years Ended June 30,		
	1999	2000	2001
	(in thousands, except for share and per share data)		
Numerator for basic and diluted net income (loss) per share:			
Net income (loss)	$ 1,927	$ (2,007)	$ 810
Denominator for basic net income (loss) per share:			
Weighted average common shares outstanding	4,436,352	5,498,218	6,329,832
Less: Weighted average shares subject to repurchase	(289,193)	(275,480)	(195,946)
Denominator for basic net income (loss) per share	4,147,159	5,222,738	6,133,886
Denominator for diluted net income (loss) per share:			
Shares used above, basic	4,147,159	5,222,738	6,133,886
Dilutive stock options	644,470	—	2,614,663
Dilutive warrants	32,000	—	19,925
Dilutive preferred stock	11,073,517	—	11,073,517
Dilutive contingent shares	—	—	37,500
Denominator for diluted net income (loss) per share	15,897,146	5,222,738	19,879,491
Net income (loss) per share:			

Basic	$ 0.46	$ (0.38)	$ 0.13
Diluted	$ 0.12	$ (0.38)	$ 0.04
Pro forma basic:			
Shares used above, basic			6,133,886
Pro forma adjustment to reflect weighted average effect of the assumed conversion of convertible preferred stock			11,073,517
Shares used in computing pro forma net income per share — basic			17,207,403
Pro forma diluted:			
Shares used above, diluted			19,879,491
Pro forma net income per share:			
Basic			$ 0.05
Diluted			$ 0.04

The computation of pro forma basic and diluted net income per share includes the assumed conversion of the outstanding preferred shares (using the as if converted method) from the original date of issuance.

11. Registration Statement

On February 9, 2001, the Board of Directors authorized the Company to file a registration statement with the Securities and Exchange Commission for an initial public offering of its common stock. In

connection with the offering, the Company will be reincorporated as a Delaware corporation prior to the completion of the offering.

If the offering is consummated under the terms presently anticipated, all of the shares of convertible preferred stock outstanding as of June 30, 2001 will automatically convert into 11,105,517 shares of common stock, including shares from the assumed exercise of a warrant for the purchase of 32,000 shares of Series E preferred stock. The effect of this exercise and conversion, and the reincorporation in Delaware, has been reflected in the unaudited pro forma stockholders' equity in the accompanying consolidated balance sheet at June 30, 2001.

12. Segment, Customers and Geographic Information

Summary information about geographic areas

Synaptics operates in one segment and generated its revenue from two broad product categories, the Personal Computer ("PC") market and Information Appliances ("iAppliances") market. The PC market account for 96.7% of the revenue in fiscal year 2001. All revenue in the prior periods related to the PC market.

The following is a summary of operations within geographic areas based on customer's location:

	Year Ended June 30,		
	1999	2000	2001
	(in thousands)		
Revenue from sales to unaffiliated customers:			
Taiwan	$24,041	$38,125	$58,902
United States	837	1,967	10,351
Korea	500	1,335	2,012
	$25,378	$41,427	$71,265
Long-lived assets:			
Taiwan	$ —	$ 98	$ 39
United Kingdom	—	348	415
United States	699	820	1,341
	$ 699	$ 1,266	$ 1,795

Major customer data as a percentage of total revenues

	Year Ended June 30,		
	1999	2000	2001
Customer A	24%	24%	32%
Customer B	12%	13%	5%
Customer C	15%	13%	6%
Customer D	12%	12%	6%
Customer E	1%	2%	11%

INDEPENDENT AUDITORS' REPORT

The Board of Directors

Foveon, Inc.:

We have audited the accompanying balance sheets of Foveon, Inc. (a development stage enterprise) as of July 1, 2000 and July 2, 1999, and the related statements of operations, redeemable convertible preferred stock and shareholders' deficit, and cash flows for the years then ended and for the period from July 9, 1997 (inception) to July 1, 2000. These financial statements 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 auditing standards generally accepted in the United States of America. 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 financial statements referred to above present fairly, in all material respects, the financial position of Foveon, Inc. (a development stage enterprise) as of July 1, 2000 and July 2, 1999, and the results of its operations and its cash flows for the years then ended and for the period from July 9, 1997 (inception) to July 1, 2000, in conformity with accounting principles generally accepted in the United States of America.

/s/ KPMG LLP

Mountain View, California

August 31, 2000

FOVEON, INC.

(A Development Stage Enterprise)

BALANCE SHEETS

	July 1, 2000	July 2, 1999
ASSETS		
Current assets:		
Cash and cash equivalents	$ 852,306	4,356,616
Inventories	825,036	380,305
Prepaid expenses	182,106	52,131
Other current assets	19,382	11,628
Total current assets	1,878,830	4,800,680
Property and equipment, net	1,049,565	1,169,699
Other assets	53,626	101,626
Total assets	$ 2,982,021	6,072,005
LIABILITIES AND SHAREHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable	$ 689,230	271,382
Accrued liabilities	633,090	347,345
Current portion of capital lease obligations	236,162	207,854
Deferred revenue	249,273	—
Total current liabilities	1,807,755	826,581

Capital lease obligations, excluding current portion	256,410	492,573
Long-term notes payable, net of warrants discount	15,495,629	7,377,322
Total liabilities	17,559,794	8,696,476
Commitments		
Redeemable convertible preferred stock:		
Series A, no par value; 6,300,000 shares authorized, issued, and outstanding (aggregate liquidation preference of $6,890,625)	6,890,625	6,890,625
Series B, no par value; 2,915,000 shares authorized; 544,047 and 514,047 shares issued and outstanding (aggregate liquidation preference of $3,200,275 and $3,023,804) as of July 1, 2000 and July 2, 1999, respectively	3,200,275	3,023,804
Shareholders' deficit:		
Common stock, no par value; 18,000,000 shares authorized; 1,190,207 and 1,171,250 shares issued and outstanding as of July 1, 2000 and July 2, 1999, respectively	204,645	181,125
Additional paid-in capital	1,655,617	1,700
Shareholder receivable	(675)	—
Deficit accumulated during the development stage	(26,528,260)	(12,721,725)
Total shareholders' deficit	(24,668,673)	(12,538,900)
Total liabilities and shareholders' deficit	$ 2,982,021	6,072,005

See accompanying notes to financial statements.

FOVEON, INC.

(A Development Stage Enterprise)

STATEMENTS OF OPERATIONS

	Years Ended		Period from July 9, 1997 (inception) to July 1, 2000
	July 1, 2000	July 2, 1999	
Net revenue	$ 311,043	—	311,043
Costs and expenses:			
Cost of revenue	720,726	—	720,726
Research and development	6,105,766	4,506,543	14,625,681
General and administrative	1,544,549	1,535,845	3,639,480
Sales and marketing	4,993,297	1,825,774	7,224,266
Total costs and expenses	13,364,338	7,868,162	26,210,153
Operating loss	(13,053,295)	(7,868,162)	(25,899,110)
Interest expense	(850,046)	(414,448)	(1,264,494)
Interest income	96,806	355,320	635,344
Net loss	$(13,806,535)	(7,927,290)	(26,528,260)

See accompanying notes to financial statements.

FOVEON, INC.

(A Development Stage Enterprise)

STATEMENTS OF REDEEMABLE CONVERTIBLE PREFERRED STOCK AND SHAREHOLDERS' DEFICIT

Period from July 9, 1997 (inception) to July 1, 2000

	Redeemable Convertible Preferred Stock							
	Series A		Series B		Common Stock		Additional Paid-in Capital	Shareholder Receivable
	Shares	Amount	Shares	Amount	Shares	Amount		
Issuance of Series A preferred stock in exchange for intellectual property rights in August 1997	1,728,571	$1,890,625	—	$ —	—	$ —	—	—
Issuance of Series A preferred stock for cash in August 1997	4,571,429	5,000,000	—	—	—	—	—	—
Issuance of warrant to purchase Series B preferred stock in August 1997	—	—	—	—	—	—	1,700	—
Issuance of restricted common stock in August 1997	—	—	—	—	350,000	35,000	—	—
Issuance of restricted common stock in March 1998	—	—	—	—	370,000	37,000	—	—
Issuance of restricted common stock in July 1998	—	—	—	—	200,000	20,000	—	—
Net loss	—	—	—	—	—	—	—	—
Balances as of July 3, 1998	6,300,000	6,890,625	—	—	920,000	92,000	1,700	—
Issuance of restricted common stock in July 1998	—	—	—	—	85,000	8,500	—	—
Issuance of Series B preferred stock from exercise of warrant in August 1998	—	—	514,047	3,023,804	—	—	—	—
Exercise of common stock options in September 1998	—	—	—	—	6,250	625	—	—
Issuance of restricted common stock in January 1999	—	—	—	—	10,000	5,000	—	—
Issuance of restricted common stock in June 1999	—	—	—	—	150,000	75,000	—	—
Net loss	—	—	—	—	—	—	—	—
Balances as of July 2, 1999	6,300,000	6,890,625	514,047	3,023,804	1,171,250	181,125	1,700	—
Repurchase of restricted common stock in October 1999	—	—	—	—	(35,000)	(3,500)	—	—
Issuance of warrants in November 1999 in connection with notes payable	—	—	—	—	—	—	327,215	(82)
Issuance of warrants in December 1999 in connection with notes payable	—	—	—	—	—	—	779,274	(193)

Exercise of common stock options in January 2000	—	—	—	—	14,063	1,406	—	—
Exercise of common stock options in March 2000	—	—	—	—	1,562	781	—	—
Issuance of common stock in March 2000	—	—	—	—	30,000	15,000	—	—
Issuance of Series B preferred stock for cash in March 2000	—	—	30,000	176,471	—	—	—	—
Issuance of warrants in March 2000 in connection with notes payable	—	—	—	—	—	—	273,714	(200)
Exercise of common stock options in April 2000	—	—	—	—	2,916	1,458	—	—
Issuance of common stock in April 2000	—	—	—	—	5,000	2,500	—	—
Common stock repurchase in May 2000	—	—	—	—	(6,667)	(667)	—	—
Issuance of warrants in May 2000 in connection with notes payable	—	—	—	—	—	—	273,714	(200)
Exercise of common stock options in June 2000	—	—	—	—	7,083	3,542	—	—
Stock-based compensation	—	—	—	—	—	3,000	—	—
Net loss	—	—	—	—	—	—	—	—
Balances as of July 1, 2000	6,300,000	$6,890,625	544,047	$3,200,275	1,190,207	$204,645	1,655,617	(675)

[Additional columns below]

[Continued from above table, first column(s) repeated]

	Deficit Accumulated during the Development Stage	**Total Shareholders' Deficit**
Issuance of Series A preferred stock in exchange for intellectual property rights in August 1997	—	—
Issuance of Series A preferred stock for cash in August 1997	—	—
Issuance of warrant to purchase Series B preferred stock in August 1997	—	1,700

Issuance of restricted common stock in August 1997	—	35,000
Issuance of restricted common stock in March 1998	—	37,000
Issuance of restricted common stock in July 1998	—	20,000
Net loss	(4,794,435)	(4,794,435)
Balances as of July 3, 1998	(4,794,435)	(4,700,735)
Issuance of restricted common stock in July 1998	—	8,500
Issuance of Series B preferred stock from exercise of warrant in August 1998	—	—
Exercise of common stock options in September 1998	—	625
Issuance of restricted common stock in January 1999	—	5,000
Issuance of restricted common stock in June 1999	—	75,000
Net loss	(7,927,290)	(7,927,290)
Balances as of July 2, 1999	(12,721,725)	(12,538,900)
Repurchase of restricted common stock in October 1999	—	(3,500)
Issuance of warrants in November 1999 in connection with notes payable	—	327,133
Issuance of warrants in December 1999 in connection with notes payable	—	779,081
Exercise of common stock options in January 2000	—	1,406
Exercise of common stock options in March 2000	—	781
Issuance of common stock in March 2000	—	15,000
Issuance of Series B preferred stock for cash in March 2000	—	—
Issuance of warrants in March 2000 in connection with notes payable	—	273,514
Exercise of common stock options in April 2000	—	1,458
Issuance of common stock in April 2000	—	2,500
Common stock repurchase in May 2000	—	(667)
Issuance of warrants in May 2000 in connection with notes payable	—	273,514
Exercise of common stock options in June 2000	—	3,542

Stock-based compensation	—	3,000
Net loss	(13,806,535)	(13,806,535)
Balances as of July 1, 2000	(26,528,260)	(24,668,673)

See accompanying notes to financial statements.

FOVEON, INC.

(A Development Stage Enterprise)

STATEMENTS OF CASH FLOWS

	Years Ended		Period from July 9, 1997 (inception) to July 1, 2000
	July 1, 2000	July 2, 1999	
Cash flows from operating activities:			
Net loss	$(13,806,535)	(7,927,290)	(26,528,260)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	522,517	252,633	840,579
Interest accrued and discount amortization on notes payable	771,549	401,131	1,172,680
Loss on disposal of equipment	20,731	3,982	24,713
Stock-based compensation	3,000	—	3,000
Impairment of intellectual property rights	—	—	1,890,625
Changes in operating assets and liabilities:			
Inventories	(444,731)	(380,305)	(825,036)
Prepaid expenses, other current assets, and other assets	(89,729)	(146,156)	(255,114)
Accounts payable and accrued liabilities	703,593	359,956	1,322,320
Deferred revenue	249,273	—	249,273
Net cash used in operating activities	(12,070,332)	(7,436,049)	(22,105,220)
Cash flows used in investing activities — purchase of property and equipment	(423,114)	(433,603)	(1,140,173)
Cash flows from financing activities:			
Proceeds from issuance of common stock	24,687	89,125	205,812
Repurchase of common stock	(4,167)	—	(4,167)
Proceeds from issuance of long-term notes payable	9,000,000	6,976,191	15,976,191
Proceeds from issuance of preferred stock and warrants	176,471	3,023,804	8,201,975
Repayments of capital lease obligations	(207,855)	(74,257)	(282,112)
Net cash provided by financing activities	8,989,136	10,014,863	24,097,699
Net (decrease) increase in cash and cash equivalents	(3,504,310)	2,145,211	852,306
Cash and cash equivalents at beginning of year/period	4,356,616	2,211,405	—
Cash and cash equivalents at end of year/period	$ 852,306	4,356,616	852,306
Supplemental disclosures of cash flow information:			
Noncash investing and financing activities:			
Issuance of preferred stock for intellectual property rights	$ —	—	1,890,625
Debt discount recorded for issuance of preferred stock warrants	$ 1,653,242	—	1,653,242
Shareholders' receivables recorded on issuance of warrants	$ 675	—	675

Property and equipment acquired through capital leases	$ —	774,684	774,684

See accompanying notes to financial statements.

FOVEON, INC.

(A Development Stage Enterprise)

NOTES TO FINANCIAL STATEMENTS

July 1, 2000 and July 2, 1999

(1) Description of Business

Foveon, Inc. (the Company) was incorporated in California on July 9, 1997 and reports its financial results for each fiscal year ending on the first Friday in July. The Company's business consists of developing and manufacturing digital camera systems. As of July 1, 2000, the Company is in the development stage with primary activities to date including customer demonstrations and limited sales, raising capital, performing research and development activities, producing prototypes, developing strategic alliances, and identifying markets.

(2) Events (Unaudited) Subsequent to the Date of the Report of the Independent Auditor

(a) Transactions

In December 2000, the Company sold 282,954 shares of Series C preferred stock for cash consideration of $1,913,680.

In May 2001, the Company approved an increase of 700,000 shares of common stock reserved for issuance under the 1997 Stock Plan.

(b) Liquidity

The Company is in the development stage, has incurred significant losses since inception, and continued to incur losses in its fiscal year ended June 30, 2001. As of June 30, 2001, the Company had cash and cash equivalents of $9,765,055 and current liabilities of $2,594,262. The Company believes it may raise additional working capital through equity or debt financing to fund its planned activities for fiscal 2002. If the Company is unable to obtain additional debt or equity financing and ultimately attain profitability, it may not be able to fund its planned activities. If it is unable to fund its planned activities it may not be able to continue as a going concern. The financial statements do not include any adjustments relating to the recoverability and classification of reported asset amounts or the amount and classification of liabilities that might be necessary should the Company be unable to continue as a going concern. The Company is currently in discussions with third parties to obtain additional funding, however, to date no formal agreements have been executed.

(3) Summary of Significant Accounting Policies

(a) Revenue Recognition

To date, revenue has been derived from sale of digital camera systems. Contracts from the sale of digital camera systems are multiple element arrangements with a combination of camera hardware, computer hardware and software, and software support services. As a result, revenue is recognized in accordance with the American Institute of Certified Public Accountants (AICPA) Statement of Position (SOP) 97-2, *Software Revenue Recognition*, and SOP 98-9*, Software Revenue Recognition, with Respect to Certain Arrangements.*

SOP 97-2 generally requires revenue earned on arrangements involving software products and services to be allocated to each element based on the relative fair values of the elements. The fair value of the elements must be based on vendor-specific objective evidence of the relative fair values of the elements. Revenue for each element is recognized when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable, and collectibility is probable.

Due to early stage of the product, the sale of digital camera systems in fiscal 2000 involved installation and demonstration obligations performed by the Company subsequent to the delivery of the

systems to the customer. After customer acceptance of the delivered hardware and software products has been received, the only remaining obligation to the customer is post-contract customer support.

As of July 1, 2000, vendor-specific objective evidence of the relative fair value of the individual elements of our agreements does not exist. Since essentially all the costs of the arrangement are incurred upon delivery of the hardware and software products, the cost of sales related to those items are recorded upon the later of payment or acceptance by the customer, and an equal amount of revenue is recognized at that time. The remaining revenue and the entire gross margin is deferred and recognized ratably over the term of the support arrangement (one to three years).

Included in inventory as of July 1, 2000, is $97,305 of digital camera systems delivered to customers under sales contracts aggregating

$222,296 for which the conditions of revenue recognition have not been met.

(b) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

(c) Cash and Cash Equivalents

The Company considers all highly liquid investments with remaining maturities at the date of purchase of 90 days or less to be cash equivalents. As of July 1, 2000 and July 2, 1999, cash equivalents consisted of money market funds in the amounts of $67,212 and $4,189,729, respectively.

(d) Inventories

Inventories are stated at the lower of weighted average cost or market.

(e) Other Assets

Other assets consist principally of deposits.

(f) Property and Equipment

Property and equipment are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally three to five years. Leasehold improvements are amortized straight line over the shorter of the lease term or estimated useful life of the asset. Amortization of assets recorded under capital lease agreements is computed using the straight-line method over the shorter of the lease term or the estimated useful lives of the related assets.

(g) Income Taxes

Income taxes are accounted for under the asset and liability method. 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, and operating loss and tax credit carryforwards. 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. A valuation allowance is recorded against deferred tax assets if it is more likely than not that all or

a portion of the deferred tax assets will not be realized. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

(h) Concentration of Credit Risk

Financial instruments that subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents. The Company maintained 78% and 95% as of July 1, 2000 and July 2, 1999, respectively, of its cash and cash equivalents with one financial institution. Management believes the financial risks associated with these financial instruments are minimal.

(i) Research and Development Costs

Development costs incurred in the research and development of new software products are expensed as incurred until technological feasibility in the form of a working model has been established. No software development costs have been capitalized to date.

In fiscal 1998, the Company recorded an impairment charge of $1,890,625 included in research and development expenses to reduce the carrying value of acquired patents to zero when it was decided not to utilize the underlying technology in development efforts.

(j) Stock-Based Compensation

The Company accounts for its stock option plan in accordance with the provisions of Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations. As such, compensation expense is recorded on the date of grant only if the current per share fair value of the underlying stock exceeds the exercise price.

(k) Impairment of Long-Lived Assets

The Company reviews long-lived assets and certain identifiable intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

(l) Comprehensive Income

To date, the Company has not experienced any material elements of other comprehensive income. As a result, net loss is equal to comprehensive loss for all periods presented.

(4) Inventories

Inventories as of July 1, 2000 and July 2, 1999, consisted of the following:

	2000	1999
Raw materials	$471,155	266,709
Work in process	61,883	113,596
Finished goods	66,090	—
Inventory on consignment	225,908	—
	$825,036	380,305

(5) Property and Equipment

Property and equipment as of July 1, 2000 and July 2, 1999, consisted of the following:

	2000	1999
Computer and other equipment	$ 855,170	664,147
Manufacturing and research and development equipment	293,787	190,819
Purchased software	107,340	99,507
Office furniture and equipment	526,035	430,812
Leasehold improvements	99,240	99,240
	1,881,572	1,484,525
Less accumulated depreciation and amortization	832,007	314,826
	$1,049,565	1,169,699

(6) Accrued Liabilities

Accrued liabilities as of July 1, 2000 and July 2, 1999, consisted of the following:

	2000	1999
Accrued compensation and benefits	$300,916	157,168
Payroll and other taxes payable	35,631	31,878
Other	296,543	158,299
	$633,090	347,345

(7) Long-Term Notes Payable

Long-term notes payable as of July 1, 2000 and July 2, 1999, consisted of the following:

	2000	1999

6% subordinated full recourse note; $6,976,191 principal and accrued interest due and payable to National Semiconductor Corporation in August 2007	$ 7,819,961	7,377,322
6.5% convertible subordinated note; $735,000 principal and accrued interest due and payable to National Semiconductor Corporation in November 2009	766,186	—
6.5% convertible subordinated note; $465,000 principal and accrued interest due and payable to Synaptics, Inc. in November 2009	484,730	—
6.5% convertible subordinated note; $2,327,500 principal and accrued interest due and payable to National Semiconductor Corporation in December 2009	2,414,531	—
6.5% convertible subordinated note; $1,472,500 principal and accrued interest due and payable to Synaptics, Inc. in December 2009	1,527,560	—
6.85% convertible subordinated note; $1,225,000 principal and accrued interest due and payable to National Semiconductor Corporation in March 2010	1,247,796	—
6.85% convertible subordinated note; $775,000 principal and accrued interest due and payable to Synaptics, Inc. in March 2010	790,264	—
6.49% convertible subordinated note; $2,000,000 principal and accrued interest due and payable to National Semiconductor Corporation in May 2010	2,019,191	—
	17,070,219	7,377,322
Unamortized discounts	(1,574,590)	—
	$15,495,629	7,377,322

The convertible subordinated notes held by National Semiconductor Corporation (National) shall be converted into shares of Series B preferred stock of the Company at the close of the Company's next equity financing. The number of shares to be issued upon conversion shall be obtained by dividing the principal amount plus, at the option of National, the accrued interest on the notes, by $5.88235. Restrictions on the conversion apply such that National can only convert these notes to the extent that the number of shares of Series B preferred stock to be obtained, when added to all other shares of the Company's common and preferred stock held by National, do not represent more than 47.5% of the outstanding voting stock of the Company on the date of conversion. Should any of the principal not be converted because of the ownership threshold, the unconverted amounts will remain as a loan until they become payable provided that National will convert the remainder of the notes for additional remaining shares of Series B preferred stock from time to time as the Company issues additional shares of voting stock and to the extent the ownership threshold is not exceeded.

Notwithstanding the provisions above, National may convert the notes in full upon any reclassification of the capital stock of the Company, any consolidation, or merger of the Company in which the shareholders immediately prior to such merger or consolidation do not retain, directly or indirectly, at least a majority of the beneficial interest in the voting stock of the surviving entity, or transfer all of the assets of the Company.

The convertible subordinated notes held by Synaptics, Inc. (Synaptics) shall become converted into shares of Series B preferred stock of the Company at the close of the Company's next equity financing. The number of shares to be issued upon conversion shall be obtained by dividing the principal amount plus, at the option of Synaptics, the accrued interest on the notes by $5.88235.

(8) Redeemable Convertible Preferred Stock and Shareholders' Deficit

(a) Preferred Stock

Rights, preferences, and privileges of the holders of Series A and B preferred stock are as follows:

- **Dividends** — The holders of the Series A and B preferred stock are entitled to receive noncumulative dividends at the rate of $0.11 and $0.59 per share per annum, respectively. Dividends are payable when and as declared by the Board of Directors in preference and priority to any payment of dividends to holders of common stock.

- **Liquidation Preference** — In the event of any liquidation or winding up of the Company, the holders of the Series A and B preferred stock are entitled to receive a liquidation preference of $1.09375 and $5.88235 per share, respectively, plus all declared but unpaid dividends over holders of common stock. A change of control event is considered a liquidation event which entitles holders of Series A and B preferred stock to receive cash or other consideration equal to their liquidation preference.

- **Conversion** — The holders of the Series A and B preferred stock have the right to convert the Series A and B preferred stock, at any time, into shares of common stock. The initial conversion rate shall be 1:1 subject to adjustment for common stock dividends, combinations or splits, and adjustment as provided by the automatic conversion clause noted below.

- **Automatic Conversion** — The Series A and B preferred stock shall be automatically converted into common stock at the then applicable conversion price (i) in the event that the holders of at least 66 2/3% of the outstanding Series A and B preferred stock consent to such conversion; or (ii) upon the closing of an underwritten public offering of shares of common stock of the Company at an aggregate offering price of not less than $7,500,000 and at a public offering price equal to or exceeding $4.00 per share of common stock.

- **Voting Rights** — The holders of Series A and B preferred stock vote equally with shares of common stock on an "as if converted" basis.

No dividends have been declared or paid on preferred stock or common stock since inception of the Company.

(b) Warrants

In conjunction with the issuance of Series A preferred stock, the Company issued for $1,700 in cash a warrant to purchase 1,700,000 shares of Series B preferred stock at an exercise price of $5.88235 a share, expiring 10 years from the date of issuance. In July 1998, the warrant holder exercised the warrant to purchase 514,047 shares of Series B preferred stock. As of July 1, 2000, a warrant to purchase 1,185,953 shares of Series B preferred stock remained outstanding.

In connection with equipment financing in April 1999, the Company issued a warrant to purchase 10,000 shares of common stock at a price of $6.00 per share, exercisable at any time prior to April 2009. The fair value of the warrant was estimated using the Black-Scholes option-pricing model with the following assumptions: risk-free rate of 5%; contractual life of ten years; no dividends; and 80% expected

volatility. The proceeds assigned to the warrant were insignificant, and consequently, no debt discount was recorded. As of July 1, 2000, all of these warrants remained outstanding.

In conjunction with the issuance of a note payable to National in November 1999 for $735,000, the Company issued for $49.98 a warrant to purchase 49,980 shares of Series B preferred stock at a purchase price of $5.88235 per share. This warrant is exercisable at any time prior to November 2004, subject to not exceeding the ownership threshold referred to in Note 6. The proceeds were assigned to the warrant and note payable based on their relative fair values. The fair value of the warrant was estimated using the Black-Scholes option-pricing model with the following assumptions: risk-free rate of 5.97%; contractual life of five years; no dividends; and 80% expected volatility. Using these assumptions, the proceeds assigned to the warrant were $200,420, and the resulting debt discount is being amortized to interest expense on a straight-line basis over the life of the loan. As of July 1, 2000, all of these warrants remained outstanding.

In conjunction with the issuance of a note payable to Synaptics in November 1999 for $465,000, the Company issued for $31.62 a warrant to purchase 31,620 shares of Series B preferred stock at a purchase price of $5.88 per share. This warrant is exercisable at any time prior to November 2004. The proceeds were assigned to the warrant and note payable based on their relative fair values. The fair value of the warrant was estimated using the Black-Scholes option-pricing model with the following assumptions: risk-free rate of 5.97%; contractual life of five years; no dividends; and 80% expected volatility. Using these assumptions, the proceeds assigned to the warrant were $126,796, and the resulting debt discount is being amortized to interest expense on a straight-line basis over the life of the loan. As of July 1, 2000, all of these warrants remained outstanding.

In conjunction with the issuance of a note payable to National in December 1999 for $2,327,500, the Company issued for $118.70 a warrant to purchase 118,703 shares of Series B preferred stock at a purchase price of $5.88 per share. This warrant is exercisable at any time prior to December 2004 subject to the ownership threshold referred to in Note 7. The proceeds were assigned to the warrant and note payable based on their relative fair values. The fair value of the warrant was estimated using the Black-Scholes option-pricing model with the following assumptions: risk-free rate of 6.19%; contractual life of five years; no dividends; and 80% expected volatility. Using these assumptions, the proceeds assigned to the warrant were $477,305 and the resulting debt discount is being amortized to interest expense on a straight-line basis over the life of the loan. As of July 1, 2000, all of these warrants remained outstanding.

In conjunction with the issuance of a note payable to Synaptics in December 1999 for $1,472,500, the Company issued for $75.10 a warrant to purchase 75,098 shares of Series B preferred stock at a purchase price of $5.88 per share. This warrant is exercisable at any time prior to December 2004. The proceeds were assigned to the warrant and note payable based on their relative fair values. The fair value of the warrant was estimated using the Black-Scholes option-pricing model with the following assumptions: risk-free rate of 6.19%; contractual life of five years; no dividends; and 80% expected volatility. Using these assumptions, the proceeds assigned to the warrant were $301,969, and the resulting debt discount is being amortized to interest expense on a straight-line basis over the life of the loan. As of July 1, 2000, all of these warrants remained outstanding.

In conjunction with the issuance of a note payable to National in March 2000 for $1,225,000, the Company issued for $122.50 a warrant to purchase 36,225 shares of Series C preferred stock at $6.76 per share at any time prior to March 2005, subject to the ownership threshold referred to in Note 6. The proceeds were assigned to the warrant and note payable based on their relative fair values. The fair value of the warrant was estimated using the Black-Scholes option-pricing model with the following assumptions: risk-free rate of 6.17%; contractual life of five years; no

dividends; and 80% expected volatility. Using these assumptions, the proceeds assigned to the warrant were $167,649, and the resulting debt discount is being

amortized to interest expense on a straight-line basis over the life of the loan. As of July 1, 2000, all of these warrants remained outstanding.

In conjunction with the issuance of a note payable to Synaptics in March 2000 for $775,000, the Company issued for $77.50 a warrant to purchase 22,918 shares of Series C preferred stock at $6.76 per share at any time prior to March 2005. The proceeds were assigned to the warrant and note payable based on their relative fair values. The fair value of the warrant was estimated using the Black-Scholes option-pricing model with the following assumptions: risk-free rate of 6.17%; contractual life of five years; no dividends; and 80% expected volatility. Using these assumptions, the proceeds assigned to the warrant were $106,065, and the resulting debt discount is being amortized to interest expense on a straight-line basis over the life of the loan. As of July 1, 2000, all of these warrants remained outstanding.

In conjunction with the issuance of a note payable to National in May 2000 for $2,000,000, the Company issued for $200 a warrant to purchase 59,143 shares of Series C preferred stock at $6.76 per share at any time prior to May 2005, subject to the ownership threshold referred to in Note 6. The proceeds were assigned to the warrant and note payable based on their relative fair values. The fair value of the warrant was estimated using the Black-Scholes option-pricing model with the following assumptions: risk-free rate of 6.17%; contractual life of five years; no dividends; and 80% expected volatility. Using these assumptions, the proceeds assigned to the warrant were $273,714, and the resulting debt discount is being amortized to interest expense on a straight-line basis over the life of the loan. As of July 1, 2000, all of these warrants remained outstanding.

(9) 1997 Stock Plan

The Company adopted a stock plan in July 1997 (the 1997 Plan) that provides for the issuance of incentive and nonstatutory options to purchase shares of common stock and rights to purchase restricted common stock. As of July 1, 2000 and July 2, 1999, 2,500,000 and 2,000,000 shares, respectively, of common stock had been reserved for issuance under the 1997 Plan. Nonstatutory stock options may be granted to employees and consultants and incentive stock options to employees. Options have a term no greater than 10 years and generally vest 25% at the end of the first year with a rate of 1/48 per month thereafter.

Nonstatutory options are exercisable at a price not less than 85% of fair market of the stock at the date of grant, as determined by the Company's Board of Directors, unless they are granted to an individual who owns greater than 10% of the voting rights of all classes of stock, in which case the exercise price shall be no less than 110% of the fair market value. Incentive stock options are exercisable at a price no less than 100% of fair market value of the stock at the date of grant, as determined by the Company's Board of Directors, except when they are granted to an employee who owns greater than 10% of the voting power of all classes of stock, in which case they are exercisable at a price not less than 110% of fair market value.

Under the terms of the 1997 Plan, employees may be granted rights to purchase restricted common stock and exercise unvested options. The Company's repurchase rights with respect to restricted common stock lapse in accordance with the option-vesting schedule described above. Upon termination of service, an employee's or nonemployee's unvested shares may be repurchased by the Company at the original purchase price. As of July 1, 2000 and July 2, 1999, 751,416 and 385,708 shares, respectively, were subject to repurchase by the Company.

As of July 1, 2000, the Company had outstanding 15,000 options to purchase shares of common stock at a price of $0.50 per share granted to nonemployees for services. The options vest over a four-year service period. The fair value of the options as of July 1, 2000, was estimated at $6,000 using the Black-

Scholes option pricing model with the following assumptions: risk-free rate of 6.17%; remaining contractual lives of approximately nine years; no dividends; and 80% volatility. Stock-based compensation expense of $3,000 is included in the statement of operations for the year ended July 1, 2000, for the portion of the grants earned during the period.

Under APB Opinion No. 25, the Company has recorded no compensation costs related to its stock-based awards to employees for the period from July 9, 1997 (inception) to July 1, 2000, because the exercise price of each option equals or exceeds the fair value of the underlying common stock as of the grant date for each stock option. Had compensation cost for the Company's plans been determined consistent with the fair value approach described in Statement of Financial Accounting Standards (SFAS) No. 123, *Accounting for Stock-Based Compensation*, the Company's pro forma net loss for the years ended July 1, 2000 and July 2, 1999, would have been $13,819,462 and $7,929,109, respectively, and for the period from July 9, 1997 (inception) to July 1, 2000, would have been $26,543,084.

The fair value of employee stock options granted was estimated on the date of grant using the Black-Scholes option-pricing model. The following weighted-average assumptions were used in this calculation: risk-free interest rate of 5.29%; expected life of four years; no dividends; and expected volatility of 0%.

The weighted-average fair value of employee options granted for the years ended July 1, 2000 and July 2, 1999, was $0.10 and $0.09, respectively.

The following table summarizes information about stock options outstanding under the 1997 Plan:

July 1, 2000			
Exercise Prices	Number Outstanding	Weighted-Average Remaining Contractual Life (years)	Number of Shares Vested
$ 0.10	15,000	7.83	8,437
0.50	883,500	9.28	133,638
	898,500	9.26	142,075

The weighted-average exercise price of shares vested as of July 1, 2000, was $0.48.

July 2, 1999			
Exercise Prices	Number Outstanding	Weighted-Average Remaining Contractual Life (years)	Number of Shares Vested
$ 0.10	33,750	8.38	10,416
0.50	380,500	9.36	18,125
	414,250		28,541

Option activity for the 1997 Plan is summarized as follows:

		Stock Options Outstanding	
	Options/Shares Available for Grant	Number of Shares	Weighted-Average Exercise/ Purchase Price
Balances as of July 9, 1997	2,000,000	—	$ —
Restricted stock issued	(920,000)	—	0.10
Balances as of July 3, 1998	1,080,000	—	0.10
Restricted stock issued	(245,000)	—	0.36
Options granted	(440,500)	440,500	0.50
Options canceled	20,000	(20,000)	0.10
Options exercised	—	(6,250)	0.10
Balances as of July 2, 1999	414,500	414,250	0.47
Increase in options available for grant	500,000	—	—
Restricted stock repurchased	41,667	—	0.10
Options granted	(646,500)	646,500	0.50
Options canceled	136,626	(136,626)	0.49
Options exercised	—	(25,624)	0.32
Balances as of July 1, 2000	446,293	898,500	0.48

(10) Related Party Transactions

As described in Notes 7 and 8, the Company issued debt and equity instruments to certain investors. These instruments generally mature or expire in 5 to 10 years.

In fiscal 2000, the Company purchased raw materials from National totaling $880,631 to be used in manufacturing and research and development.

In fiscal 1999, the Company purchased certain equipment and office furniture from National totaling $595,000. In addition, the Company also leased the office facility from National and paid rent and related security deposit in fiscal 2000 and 1999 of $643,512 and $342,030, respectively.

As of July 1, 2000 and July 2, 1999, the Company owed National $367,501 and $-0-, respectively.

(11) Income Taxes

No income tax benefits have been recognized to date due to the valuation allowance recorded against deferred tax assets generated during the periods. The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities as of July 1, 2000 and July 2, 1999, are presented below:

	2000	1999
Deferred tax assets:		
Research and other tax credit carryforwards	$ 675,000	364,000
Start-up expenditures	1,651,000	2,218,000
Net operating loss carryforwards	7,376,000	2,105,000
Others	353,000	88,000
Gross deferred tax assets before valuation allowance	10,055,000	4,775,000
Less valuation allowance	10,055,000	4,684,000
Deferred tax assets net of valuation allowance	—	91,000
Deferred tax liability — property and equipment	—	(91,000)
Net deferred taxes	$ —	—

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Due to the uncertainty surrounding the Company's ability to realize such deferred tax assets, a full valuation allowance has been established.

As of July 1, 2000, the Company has net operating loss carryforwards of approximately $18,545,00 and $17,316,000 for federal and California income tax purposes, respectively. The federal and California net operating loss carryforwards expire in the year 2020 and 2006, respectively. As of July 1, 2000, the Company has research and experimental tax credit carryforwards for federal and California of approximately $479,000 and $293,000, respectively. The federal research and experimental credit carryforwards expire in the year 2020. The California research and experimental credit does not expire.

Federal and state tax laws impose significant restrictions on the utilization of net operating loss carryforwards in the event of a change in ownership of the Company which constitutes an "ownership change," as defined by the Internal Revenue Code, Section 382. The Company has not determined whether such an "ownership change" has occurred which could limit the availability of the net operating losses and tax credits.

(12) Lease Commitments

(a) Operating Leases

The Company leases its facilities and certain office equipment under operating leases. These leases expire at various dates through 2004.

Future minimum lease payments under noncancelable operating leases as July 1, 2000, are as follows:

Fiscal Year Ending	
2001	$ 754,416
2002	700,776
2003	61,225
2004	2,056

2005	—
Total	$1,518,473

The Company's rent expense was $696,636 and $438,335 for the years ended July 1, 2000 and July 2, 1999, respectively.

(b) Capital Lease Obligations

The following is a schedule by fiscal year of future minimum lease payments under capital lease obligations for certain equipment, together with the present value of the net minimum lease payments:

Fiscal Year Ending	
2001	$286,342
2002	273,863
Total minimum lease payments	560,205
Less amounts representing interest	67,633
Present value of net minimum lease payments	492,572
Less current portion	236,162
Long-term portion of capital lease obligations	$256,410

Equipment under capital lease was $774,684 as of July 1, 2000, with accumulated amortization of $340,569.

(13) Employee Savings Plan

In January 1998, the Company implemented a retirement savings and investment plan that is intended to qualify under Section 401(k) of the Internal Revenue Code (the 401(k) Plan) covering all of the Company's employees. An employee may elect the Company to defer, in the form of contributions to the 401(k) Plan on his or her behalf, up to 12% of the total compensation that would otherwise be paid to the employee, not to exceed the amount allowed by applicable Internal Revenue Service guidelines. The Company does not match employee contributions to the 401(k) Plan.

(14) Subsequent Events

On August 6, 2000, the Company issued a convertible subordinated note payable to a new investor for $1,000,000 which was subsequently converted into 147,859 shares of Series C preferred stock in connection with the financing event described below.

In August 2000, the Company completed a Series C preferred stock round of financing. The Company authorized 4,100,000 shares of Series C preferred stock with a par value of $0.001 per share to be issued, of which 2,957,171 shares were issued to new investors for cash consideration of $19,999,995. As a consequence of this stock issuance, all of the principal amounts of the convertible subordinated notes were converted into an aggregate of 850,000 shares of Series B preferred stock and 591,434 shares of Series C preferred stock. In addition, the 6% subordinated note and accrued interest thereon, due August 2007 was canceled as consideration in the exercise of an outstanding warrant of Series B preferred stock resulting in the issuance of 1,185,953 shares of Series B preferred stock.

In connection with the Company's Series C financing, the articles of incorporation were amended and restated such that all series of convertible preferred stock became mandatorily redeemable at the original issuance price plus all declared but unpaid dividends at defined redemption dates beginning in August 2005, if so elected by a majority of holders of all series of preferred stock voting together as a class. Additionally, in the event of any liquidation or winding up of the Company, the holders of the Series A, Series B, and Series C preferred stock are entitled to receive a liquidation preference of $1.09375, $5.88235, and $6.763219 per share, respectively, plus all declared but unpaid dividends over holders of common stock. After payment has been made to the holders of all preferred stock of the full preferential amounts to which they shall be entitled, the remaining assets of the Company available for distribution to shareholders shall be distributed among the holders of Series A, Series B, and Series C preferred stock and the common stock pro rata based on the number of shares of common stock held by each assuming conversion of all such Series A, Series B, and Series C preferred shares until the holders of Series A, Series B, and Series C preferred stock have received an aggregate of $3.28125, $17.64705, and $20.289 per share, respectively.

(Inside back cover)

The top of the page has the word Synaptics across the middle in capital letters.

To the left of the word Synaptics is a circle-shaped picture depicting a finger moving a touch stick on a keypad. Below the word Synaptics is a picture of a white Internet terminal device with a touch pad, keyboard, and small display screen. To the right of the word Synaptics is a partial photo of the bottom half of a notebook computer. Directly below this picture of the notebook computer is the company logo and two Chinese characters below the logo, which denote QuickStroke, the Company's Chinese handwriting recognition software.

In the bottom left hand corner of the page is a picture of a hand cradling a remote control device with a small touch pad. In the bottom right hand corner is a blurred photo of the touch pad and keyboard of a notebook computer. Directly above this is a tilted photo of a computer screen. On the screen there is a Chinese version of a word processing program with the words Synaptics and various Chinese characters displayed.

You should rely only on the information contained in this prospectus. We have not authorized anyone to provide you with information different from that contained in this prospectus. We are offering to sell, and seeking offers to buy, shares of common stock only in jurisdictions where offers and sales are permitted. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or of any sale of our common stock.

TABLE OF CONTENTS

Until , 2001, all dealers effecting transactions in the common stock offered hereby, whether or not participating in this distribution, may be required to deliver a prospectus. This is in addition to the obligations of dealers to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

5,000,000 Shares

Common Stock

PROSPECTUS

Bear, Stearns & Co. Inc.

Banc of America Securities LLC

SG Cowen

ABN AMRO Rothschild LLC

, 2001

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

Item 13. ***Other Expenses of Issuance and Distribution.***

The following table sets forth the expenses in connection with the offering described in the Registration Statement. All such expenses are estimates except for the SEC registration fee and NASD and Nasdaq National Market filing fees.

SEC registration fee	$ 17,250
NASD filing fee	6,500
Blue Sky fees and expenses	10,000
Nasdaq National Market filing fee	95,000
Transfer agent and registrar fees	4,000
Accountants' fees and expenses	450,000
Legal fees and expenses	600,000
Printing and engraving expenses	250,000
Miscellaneous fees	167,250
Total	$1,600,000

Item 14. ***Indemnification of Directors and Officers.***

The Certificate of Incorporation and Bylaws of the Registrant provide that the Registrant will indemnify and advance expenses, to the fullest extent permitted by the Delaware General Corporation Law, to each person who is or was a director or officer of the Registrant, or who serves or served any other enterprise or organization at the request of the Registrant (an "Indemnitee").

Under Delaware law, to the extent that an Indemnitee is successful on the merits in defense of a suit or proceeding brought against him or her by reason of the fact that he or she is or was a director, officer, or agent of the Registrant, or serves or served any other enterprise or organization at the request of the Registrant, the Registrant shall indemnify him or her against expenses (including attorneys' fees) actually and reasonably incurred in connection with such action.

If unsuccessful in defense of a third-party civil suit or a criminal suit, or if such a suit is settled, an Indemnitee may be indemnified under Delaware law against both (i) expenses, including attorney's fees, and (ii) judgments, fines, and amounts paid in settlement if he or she acted in good faith and in a manner he or she reasonably believed to be in, or not opposed to, the best interests of the Registrant, and, with respect to any criminal action, had no reasonable cause to believe his or her conduct was unlawful.

If unsuccessful in defense of a suit brought by or in the right of the Registrant, where the suit is settled, an Indemnitee may be indemnified under Delaware law only against expenses (including attorneys' fees) actually and reasonably incurred in the defense or settlement of the suit if he or she acted in good faith and in a manner he or she reasonably believed to be in, or not opposed to, the best interests of the Registrant except that if the Indemnitee is adjudged to be liable for negligence or misconduct in the performance of his or her duty to the Registrant, he or she cannot be made whole even for expenses unless a court determines that he or she is fully and reasonably entitled to indemnification for such expenses.

Also under Delaware law, expenses incurred by an officer or director in defending a civil or criminal action, suit, or proceeding may be paid by the Registrant in advance of the final disposition of the suit, action, or proceeding upon receipt of an undertaking by or on behalf of the officer or director to repay such amount if it is ultimately determined that he or she is not entitled to be indemnified by the Registrant.

The Registrant may also advance expenses incurred by other employees and agents of the Registrant upon such terms and conditions, if any, that the Board of Directors of the Registrant deems appropriate.

Item 15. ***Recent Sales of Unregistered Securities.***

Since July 1, 1998, we have sold and issued the following securities:

1. From July 1, 1998 to June 30, 2001, we issued options to purchase an aggregate of 5,369,682 shares of our common stock at prices ranging from $1.00 to $8.50 per share to employees, directors and consultants pursuant to the 1996 Stock Option Plan and the 2000 Nonstatutory Stock Option Plan.

2. From July 1, 1998 to June 30, 2001, we issued and sold an aggregate of 1,969,402 shares of our common stock to employees, directors, and consultants for aggregate consideration of $1,989,380 consisting of a mix of cash and promissory notes, pursuant to the exercise of options granted under our 1986 and 1996 stock option plans.

3. During fiscal 2000, we issued 9,667 shares of our common stock at a value of $9,667 and 4,834 shares of our common stock at a value of $9,668 to Mr. T.W. Kang in payment for consulting services. We also issued 17,334 shares of our common stock at a value of $35,665 to Mr. Eugene Ko for consulting services.

4. In June 1999, we issued an aggregate of 37,500 shares of our common stock to PCT Taiwan in connection with the formation of our branch in Taiwan at a value of $75,000. An additional 37,500 shares of our common stock are issuable if certain covenants are fulfilled.

5. In October 1999, we issued 652,025 shares of our common stock to 60 residents of the United Kingdom and four residents of the United States, all of whom were executive officers or employees of Absolute Sensors Limited, and to two institutional investors in Belgium and Switzerland at a value of $1,304,044 in connection with the acquisition of Absolute Sensors Limited, our British subsidiary. An additional 200,000 shares of our common stock are issuable if certain products are sold within two years of the acquisition.

The sales and issuances of the securities in the transactions listed in paragraphs 1, 2, and 3 above were deemed to be exempt from registration under the Securities Act pursuant to the exemption provided by Rule 701 for securities issued in compensatory circumstances.

The sales and issuances of the securities in the transactions listed in paragraphs 4 and 5 above were deemed to be exempt from registration under the Securities Act by virtue of Section 4(2). In addition, the offering to the 60 United Kingdom residents and the two institutional investors in Belgium and Switzerland was made in reliance on Regulation S and the Form of Acceptance executed by such persons required such persons to confirm that they were not U.S. persons. Appropriate legends have been placed on the documents evidencing the securities and investment representations were obtained from the purchasers. All purchasers of securities either received adequate information about our company or had access, through employment or other relationships, to such information. All such securities issued pursuant to such exemptions are restricted securities as defined in Rule 144(a)(3) promulgated under the Securities Act.

Item 16. ***Exhibits.***

(a) Exhibits

Exhibit Number	Exhibits
* 1	Form of Underwriting Agreement
3.1	Form of Certificate of Incorporation of the Registrant to be filed in Delaware
3.2	Form of Bylaws of the Registrant

Exhibit Number	Exhibits
4	Form of Common Stock Certificate
* 5	Opinion of Greenberg Traurig, LLP
10.1	1986 Incentive Stock Option Plan and form of grant agreement
10.2	1986 Supplemental Stock Option Plan and form of grant agreement
10.3	1996 Stock Option Plan and form of grant agreement
10.4	2000 UK Approved Sub-Plan to the 1996 Stock Option Plan and form of grant agreement
10.5	2000 Nonstatutory Stock Option Plan and form of grant agreement
10.6	2001 Incentive Compensation Plan and form of grant agreement
10.7	2001 Employee Stock Purchase Plan
10.8	401(k) Profit Sharing Plan
10.9	Agreement dated as of October 13, 1999 by and among the Registrant and the Principal Shareholders of Absolute Sensors Limited
10.10	Lease dated as of September 17, 1999 by and between Silicon Valley Properties, LLC as Landlord and the Registrant as Tenant
10.11	Master Equipment Lease Agreement dated as of November 28, 2000 by and between KeyCorp Leasing, a Division of Key Corporate Capital Inc., and the Registrant
10.12	Subordinated Secured Non-Recourse Promissory Note dated August 12, 1997 executed by the Registrant in favor of National Semiconductor Corporation
10.13	Form of Stock Option Grant and Stock Option Agreement between the Registrant and Federico Faggin
10.14	Form of Stock Option Grant and Stock Option Agreement between the Registrant and Francis F. Lee
10.15	Form of Stock Option Grant and Stock Option Agreement between the Registrant and Russell J. Knittel
21	List of Subsidiaries
* 23.1	Consent of Greenberg Traurig, LLP (included in Exhibit 5)

	23.2	Consent of Ernst & Young LLP, independent auditors
	23.3	Consent of KPMG LLP, independent auditors
*	*24	Power of Attorney of Directors and Executive Officers (included on the Signature Page of the Registration Statement)

* To be filed by amendment.

** Previously filed.

(b) Financial Statement Schedules

Schedule II — Valuation and Qualifying Accounts

See Schedule II at page S-1.

Item 17. *Undertakings.*

The undersigned registrant hereby undertakes to provide to the underwriter, at the closing specified in the underwriting agreement, certificates in such denominations and registered in such names as required by the underwriter to permit prompt delivery to each purchaser.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers, and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer, or controlling person of the registrant in the successful defense of any action, suit, or proceeding) is asserted by such director, officer, or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

The undersigned registrant hereby undertakes that:

(1) For purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1), or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.

(2) For the purpose of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial *bona fide* offering thereof.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the registrant has duly caused this amendment no. 1 to the registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of San Jose, State of California, on August 17, 2001.

SYNAPTICS INCORPORATED

By: /s/ FRANCIS F. LEE

Francis F. Lee
Chief Executive Officer

Pursuant to the requirements of the Securities Act of 1933, this amendment no. 1 to the registration statement has been signed by the following persons in the capacities and on the dates indicated.

Signature	Title	Date
/s/ FRANCIS F. LEE Francis F. Lee	President, Chief Executive Officer, and Director (Principal Executive Officer)	August 17, 2001

/s/ RUSSELL J. KNITTEL Russell J. Knittel	Vice President of Administration, Chief Financial Officer, and Secretary (Principal Financial and Accounting Officer)	August 17, 2001
/s/ FEDERICO FAGGIN* Federico Faggin	Chairman of the Board	August 17, 2001
/s/ KEITH B. GEESLIN* Keith B. Geeslin	Director	August 17, 2001
/s/ RICHARD L. SANQUINI* Richard L. Sanquini	Director	August 17, 2001
/s/ JOSHUA C. GOLDMAN* Joshua C. Goldman	Director	August 17, 2001
*By: /s/ RUSSELL J. KNITTEL Russell J. Knittel Attorney-in-Fact		August 17, 2001

SCHEDULE II — VALUATION AND QUALIFYING ACCOUNTS

SYNAPTICS INCORPORATED

Description	Balance as of Beginning of Year	Additions Charged to Costs and Expenses	Write-offs	Balance as of End of Year
Year ended June 30, 1999				
Deducted from asset accounts:				
Allowance for doubtful accounts	$ 99,000	$ —	$ —	$ 99,000
Year ended June 30, 2000				
Deducted from asset accounts:				
Allowance for doubtful accounts	$ 99,000	$ 23,000	$ 2,000	$ 120,000
Year ended June 30, 2001				
Deducted from asset accounts:				
Allowance for doubtful accounts	$ 120,000	$ 6,000	$ 1,000	$ 125,000

EXHIBIT INDEX

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10.7	2001 Employee Stock Purchase Plan
10.8	401(k) Profit Sharing Plan
10.9	Agreement dated as of October 13, 1999 by and among the Registrant and the Principal Shareholders of Absolute Sensors Limited
10.10	Lease dated as of September 17, 1999 by and between Silicon Valley Properties, LLC as Landlord and the Registrant as Tenant
10.11	Master Equipment Lease Agreement dated as of November 28, 2000 by and between KeyCorp Leasing, a Division of Key Corporate Capital Inc., and the Registrant

	10.12	Subordinated Secured Non-Recourse Promissory Note dated August 12, 1997 executed by the Registrant in favor of National Semiconductor Corporation
	10.13	Form of Stock Option Grant and Stock Option Agreement between the Registrant and Federico Faggin
	10.14	Form of Stock Option Grant and Stock Option Agreement between the Registrant and Francis F. Lee
	10.15	Form of Stock Option Grant and Stock Option Agreement between the Registrant and Russell J. Knittel
	21	List of Subsidiaries
*	23.1	Consent of Greenberg Traurig, LLP (included in Exhibit 5)
	23.2	Consent of Ernst & Young LLP, independent auditors
	23.3	Consent of KPMG LLP, independent auditors
*	*24	Power of Attorney of Directors and Executive Officers (included on the Signature Page of the Registration Statement)

* To be filed by amendment.

** Previously filed.

EXHIBIT 3.1

CERTIFICATE OF INCORPORATION

SYNAPTICS INCORPORATED

FIRST: The name of the Corporation is Synaptics Incorporated.

SECOND: The registered office of the Corporation in the State of Delaware is 1209 Orange Street, City of Wilmington, County of New Castle, Delaware 19801. The name of the Corporation's registered agent is The Corporation Trust Company.

THIRD: The purpose of the Corporation is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of the State of Delaware, as the same exists or may hereafter be amended (the "GCL").

FOURTH: The Corporation shall be authorized to issue two classes of shares of capital stock, to be designated, respectively, "Common Stock" and "Preferred Stock." The total number of shares of Common Stock and Preferred Stock that the Corporation shall have authority to issue is sixty million (60,000,000) of which fifty million (50,000,000) shares shall be Common Stock and ten million (10,000,000) shall be Preferred Stock. The par value of the shares of Common Stock is one-tenth of one cent ($.001) per share. The par value of the shares of Preferred Stock is one-tenth of one cent ($.001) per share.

The shares of Preferred Stock may be issued from time to time in one or more series. The Board of Directors is hereby authorized, by filing a certificate pursuant to the applicable law of the State of Delaware, to establish from time to time the number of shares to be included in each series, and to fix the designation, powers, preferences and rights of the shares of each such series and the qualifications, limitations, or restrictions thereof, including, but not limited to, the fixing or alteration of the dividend rights, dividend rate, conversion rights, voting rights, rights and terms of redemption (including sinking fund provisions), the redemption price or prices, and the liquidation preferences of any wholly unissued series of shares of Preferred Stock, or any of them; and to increase or decrease the number of shares of any series subsequent to the issue of the shares of that series, but not below the number of shares of that series then outstanding. In case the number of shares of any series shall be so decreased, the shares constituting such decrease shall resume the status they had prior to the adoption of the resolution originally fixing the number of shares of that series.

FIFTH: The name and mailing address of the incorporator are _____.

SIXTH: The number of directors which shall comprise the initial Board of Directors of the Corporation shall be one (1). The size of the Board of Directors may be increased or decreased in the manner provided in the Bylaws of the Corporation.

All corporate powers of the Corporation shall be exercised by or under the direction of the Board of Directors except as otherwise provided herein or by law.

SEVENTH: Unless and except to the extent that the Bylaws of the Corporation shall so require, the election of directors of the Corporation need not be by written ballot.

EIGHTH: A director of the Corporation shall not be liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, except to the extent such exemption from liability or limitation thereof is not permitted under the GCL. Any repeal or modification of this Article shall not adversely affect any right or protection of a director of the Corporation existing hereunder with respect to any act or omission occurring prior to such repeal or modification.

NINTH: Subject to the power of the stockholders of the Corporation to adopt, amend or repeal any Bylaw made by the Board of Directors, the Board of

Directors is expressly authorized and empowered to adopt, amend or repeal the Bylaws of the Corporation.

TENTH: The Corporation reserves the right at any time, and from time to time, to amend, alter, change or repeal any provision contained in this Certificate of Incorporation, and other provisions authorized by the laws of the State of Delaware at the time in force may be added or inserted, in the manner now or hereafter prescribed by law; and all rights, preferences and privileges of whatsoever nature conferred upon stockholders, directors or any other persons whomsoever by and pursuant to this Certificate of Incorporation in its present form or as hereafter amended are granted subject to the rights reserved in this Article.

IN WITNESS WHEREOF, I, the undersigned, being the Incorporator hereinabove stated, set my hand this _____ day of _____, 2001.

_____

_____, Incorporator

1

EXHIBIT 3.2

BYLAWS

OF

SYNAPTICS INCORPORATED

ADOPTED AS OF _____, 2001

2

TABLE OF CONTENTS

3

TABLE OF CONTENTS
(CONTINUED)

BYLAWS

OF

SYNAPTICS INCORPORATED

ARTICLE 1
STOCKHOLDERS

1.1 PLACE OF MEETINGS. Meetings of stockholders shall be held at the place, either within or without the state of Delaware, as may be designated by resolution of the Board of Directors from time to time.

1.2 ANNUAL MEETINGS. Annual meetings of stockholders shall, unless otherwise provided by the Board of Directors, be held on the second Tuesday in April of each calendar year, commencing in 2002, if not a legal holiday, and if a legal holiday, then on the next full business day following, at 10:00 a.m., at which time they shall elect a board of directors and transact any other business as may properly be brought before the meeting.

1.3 SPECIAL MEETINGS. Special meetings of stockholders for any purpose or purposes may be called at any time by the Board of Directors, or by a committee of the Board of Directors which has been duly designated by the Board of Directors and whose powers and authority, as expressly provided in a resolution of the Board of Directors, include the power to call such meetings, but such special meetings may not be called by any other person or persons.

1.4 NOTICE OF MEETINGS. Whenever stockholders are required or permitted to take any action at a meeting, a written notice of the meeting shall be given which shall state the place, date and hour of the meeting, and, in the case of a special meeting, the purpose or purposes for which the meeting is called. Unless otherwise provided by law, the Certificate of Incorporation or these Bylaws, the written notice of any meeting shall be given no less than ten (10) nor more than sixty (60) days before the date of the meeting to each stockholder entitled to vote at such meeting. If mailed, such notice shall be deemed to be given when deposited in the mail, postage prepaid, directed to the stockholder at his or her address as it appears on the records of the corporation.

1.5 ADJOURNMENTS. Any meeting of stockholders, annual or special, may adjourn from time to time to reconvene at the same or some other place, and notice need not be given of any such adjourned meeting if the time and place thereof are announced at the meeting at which the adjournment is taken. At the adjourned meeting the corporation may transact any business which might have been transacted at the original meeting. If the adjournment is for more than thirty (30) days, or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting.

1.6 QUORUM. Except as otherwise provided by law, the Certificate of Incorporation or these Bylaws, at each meeting of stockholders the presence in person or by proxy of the holders of shares of stock having a majority of the votes which could be cast by the holders of all outstanding shares of stock entitled to vote at the meeting shall be necessary and sufficient to constitute a quorum. In the absence of a quorum, the stockholders so present may, by majority vote, adjourn the meeting from time to time in the manner provided in Section 1.5 of these Bylaws until a quorum shall attend. Shares of its own stock belonging to the corporation or to another corporation, if a majority of the shares entitled to vote in the election of directors of such other corporation is held, directly or indirectly, by the corporation, shall neither be entitled to vote nor be counted for quorum purposes; provided, however, that the foregoing shall not limit the right of the corporation to vote stock, including but not limited to its own stock, held by it in a fiduciary capacity.

1.7 ORGANIZATION. Meetings of stockholders shall be presided over by the Chairman of the Board, if any, or in his or her absence by the Vice Chairman of the Board, if any, or in his or her absence by the President, or in his or her absence by a Vice President, or in the absence of the foregoing persons by a chairman designated by the Board of Directors, or in the absence of such designation by a chairman chosen at the meeting. The Secretary shall act as secretary of the meeting, but in his or her absence the chairman of the meeting may appoint any person to act as secretary of the meeting.

1.8 VOTING; PROXIES. Except as otherwise provided by the Certificate of Incorporation, each stockholder entitled to vote at any meeting of stockholders shall be entitled to one vote for each share of stock held by such stockholder which has voting power upon the matter in question. Each stockholder entitled to vote at a meeting of stockholders may authorize another person or persons to act for such stockholder by proxy, but no such proxy shall be voted or acted upon after three (3) years from its date, unless the proxy provides for a longer period. A duly executed proxy shall be irrevocable if it states that it is irrevocable and if, and only as long as, it is coupled with an interest sufficient in law to support an irrevocable power. A stockholder may revoke any proxy which is not irrevocable by attending the meeting and voting in person or by filing an instrument in writing revoking the proxy or another duly executed proxy bearing a later date with the Secretary of the corporation. Voting at meetings of stockholders need not be by written ballot and need not be conducted by inspectors of election unless so determined by the holders of shares of stock having a majority of the votes which could be cast by the holders of all outstanding shares of stock entitled to vote thereon which are present in person or by proxy at such meeting. At all meetings of stockholders for the election of directors a plurality of the votes cast shall be sufficient to elect. All other elections and questions shall, unless otherwise provided by law, the Certificate of Incorporation or these Bylaws, be decided by the vote of the holders of shares of stock having a majority of the votes which could be cast by the holders of all shares of stock entitled to vote thereon which are present in person or represented by proxy at the meeting.

6

1.9 FIXING DATE FOR DETERMINATION OF STOCKHOLDERS OF RECORD. In order that the corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, or to express consent to corporate action in writing without a meeting, or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any change, conversion or exchange of stock or for the purpose of any other lawful action, the Board of Directors may fix a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted by the Board of Directors and which record date: (1) in the case of determination of stockholders entitled to vote at any meeting of stockholders or adjournment thereof, shall, unless otherwise required by law, not be more than sixty (60) nor less than ten (10) days before the date of such meeting; (2) in the case of determination of stockholders entitled to express consent to corporate action in writing without a meeting, shall not be more than ten (10) days from the date upon which the resolution fixing the record date is adopted by the Board of Directors; and (3) in the case of any other action, shall not be more than sixty (60) days prior to such other action. If no record date is fixed: (1) the record date for determining stockholders entitled to notice of or to vote at a meeting of stockholders shall be at the close of business on the day next preceding the day on which notice is given, or, if notice is waived, at the close of business on the day next preceding the day on which the meeting is held; (2) the record date for determining stockholders entitled to express consent to corporate action in writing without a meeting when no prior action of the Board of Directors is required by law, shall be the first date on which a signed written consent setting forth the action taken or proposed to be taken is delivered to the corporation in accordance with applicable law, or, if prior action by the Board of Directors is required by law, shall be at the close of business on the day on which the Board of Directors adopts the resolution taking such prior action; and (3) the record date for determining stockholders for any other purpose shall be at the close of business on the day on which the Board of Directors adopts the resolution relating thereto. A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; provided, however, that the Board of Directors may fix a new record date for the adjourned meeting.

1.10 LIST OF STOCKHOLDERS ENTITLED TO VOTE. The Secretary shall prepare and make, at least ten (10) days before every meeting of stockholders, a complete list of the stockholders entitled to vote at the meeting, arranged in alphabetical order, and showing the address of each stockholder and the number of shares registered in the name of each stockholder. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least ten (10) days prior to the meeting, either at a place within the city where the meeting is to be held, which place shall be specified in the notice of the meeting, or, if not so specified, at the place where the meeting is to be held. The list shall also be produced and kept at the time and place of the meeting during the whole time thereof and may be inspected by any stockholder who is present. Upon the willful neglect or refusal of the directors to produce such a list at any meeting for the election of directors, they shall be ineligible for election to any office at such meeting. The stock ledger shall be the only evidence as to who are the stockholders entitled to examine the stock ledger, the list of stockholders or the books of the corporation, or to vote in person or by proxy at any meeting of stockholders.

7

1.11 ACTION BY CONSENT OF STOCKHOLDERS. Unless otherwise restricted by the Certificate of Incorporation, any action required or permitted to be taken at any annual or special meeting of the stockholders may be taken without a meeting, without prior notice and without a vote, if a consent in writing, setting forth the action so taken, shall be signed by the holders of outstanding stock having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted. Prompt notice of the taking of the corporate action without a meeting by less than unanimous written consent shall be given to those stockholders who have not consented in writing.

ARTICLE 2
BOARD OF DIRECTORS

2.1 NUMBER; QUALIFICATIONS. The Board of Directors shall consist of one or more members, the number thereof to be determined from time to time by resolution of the Board of Directors. The number of directors which shall comprise the initial Board of Directors shall be that number set forth in the Certificate of Incorporation. Directors need not be stockholders.

2.2 ELECTION; RESIGNATION; REMOVAL; VACANCIES. The Board of Directors shall be elected at each annual meeting of stockholders and each director shall hold office for a term of one (1) year or until his or her successor is elected and qualified. Any director may resign at any time upon written notice to the corporation. Any newly created directorship or any vacancy occurring in the Board of Directors for any cause may be filled by a majority of the remaining members of the Board of Directors, although such majority is less than a quorum, or by a plurality of the votes cast at a meeting of stockholders, and each director so elected shall hold office until the expiration of the term of office of the director whom he has replaced or until his or her successor is elected and qualified.

2.3 REGULAR MEETINGS. Regular meetings of the Board of Directors may be held at such places within or without the State of Delaware and at such times as the Board of Directors may from time to time determine, and if so determined, notices thereof need not be given.

2.4 SPECIAL MEETINGS. Special meetings of the Board of Directors may be held at any time or place within or without the State of Delaware whenever called by the President, any Vice President, the Secretary, or by any member of the Board of Directors. Notice of a special meeting of the Board of Directors shall be given by the person or persons calling the meeting at least twenty-four (24) hours before the special meeting.

2.5 TELEPHONIC MEETINGS PERMITTED. Members of the Board of Directors, or any committee designated by the Board of Directors, may participate in a meeting thereof by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other, and participation in a meeting pursuant to this bylaw shall constitute presence in person at such meeting.

2.6 QUORUM; VOTE REQUIRED FOR ACTION. At all meetings of the Board of Directors a majority of the whole Board of Directors shall constitute a quorum for the transaction of business. Except in cases in which the Certificate of Incorporation or these Bylaws otherwise provide, the vote of a majority of the directors present at a meeting at which a quorum is present shall be the act of the Board of Directors.

2.7 ORGANIZATION. Meetings of the Board of Directors shall be presided over by the Chairman of the Board, if any, or in his or her absence by the Vice Chairman of the Board, if any, or in his or her absence by the President, or in their absence by a chairman chosen at the meeting. The Secretary shall act as secretary of the meeting, but in his or her absence the chairman of the meeting may appoint any person to act as secretary of the meeting.

2.8 INFORMAL ACTION BY DIRECTORS. Unless otherwise restricted by the Certificate of Incorporation or these Bylaws, any action required or permitted to be taken at any meeting of the Board of Directors, or of any committee thereof, may be taken without a meeting if all members of the Board of Directors or such committee, as the case may be, consent thereto in writing, and the writing or writings are filed with the minutes of proceedings of the Board of Directors or such committee.

ARTICLE 3
COMMITTEES

3.1 COMMITTEES. The Board of Directors may, by resolution passed by a majority of the whole Board of Directors, designate one or more committees, each committee to consist of one or more of the directors of the corporation. The Board of Directors may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee. In the absence or disqualification of a member of the

committee, the member or members thereof present at any meeting and not disqualified from voting, whether or not he or they constitute a quorum, may unanimously appoint another member of the Board of Directors to act at the meeting in place of any such absent or disqualified member. Any such committee, to the extent permitted by law and to the extent provided in the resolution of the Board of Directors, shall have and may exercise all the powers and authority of the Board of Directors in the management of the business and affairs of the corporation, and may authorize the seal of the corporation to be affixed to all pages which may require it.

3.2 COMMITTEE RULES. Unless the Board of Directors otherwise provides, each committee designated by the Board of Directors may make, alter and repeal rules for the conduct of its business. In the absence of such rules each committee shall conduct its business in the same manner as the Board of Directors conducts its business pursuant to Article 2 of these Bylaws.

ARTICLE 4
OFFICERS

4.1 EXECUTIVE OFFICERS; ELECTION; QUALIFICATIONS; TERM OF OFFICE; RESIGNATION; REMOVAL; VACANCIES. The Board of Directors shall elect a President and Secretary, and it may, if it so determines, choose a Chairman of the Board and a Vice Chairman of the Board from among its members. The Board of Directors may also elect one or more Vice Presidents, one or more Assistant Secretaries, a Treasurer, one or more Assistant Treasurers, and such other officers as the Board of Directors deems necessary. Each such officer shall hold office until the first meeting of the Board of Directors after the annual meeting of stockholders next succeeding his or her election, and until his or her successor is elected and qualified or until his or her earlier resignation or removal. Any officer may resign at any time upon written notice to the corporation. The Board of Directors may remove any officer with or without cause at any time, but such removal shall be without prejudice to the contractual rights of such officer, if any, with the corporation. Any number of offices may be held by the same person. Any vacancy occurring in any office of the corporation by death, resignation, removal or otherwise may be filled for the unexpired portion of the term by the Board of Directors at any regular or special meeting.

4.2 POWERS AND DUTIES OF EXECUTIVE OFFICERS. The officers of the corporation shall have such powers and duties in the management of the corporation as may be prescribed by the Board of Directors and, to the extent not so provided, as generally pertain to their respective officers, subject to the control of the Board of Directors. The Board of Directors may require any officer, agent or employee to give security for the faithful performance of his or her duties.

ARTICLE 5
STOCK

5.1 CERTIFICATES. Every holder of stock shall be entitled to have a certificate signed by or in the name of the corporation by the Chairman or Vice Chairman of the Board of Directors, if any, or the President or a Vice President, and by the Treasurer or an Assistant Treasurer, or the Secretary or an Assistant Secretary, of the corporation, certifying the number of shares owned by him in the corporation. Any of or all the signatures on the certificate may be a facsimile. In case any officer, transfer agent, or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer, transfer agent, or registrar before such certificate is issued, it may be issued by the corporation with the same effect as if he were such officer, transfer agent, or registrar at the date of issue.

5.2 LOST, STOLEN OR DESTROYED STOCK CERTIFICATES; ISSUANCE OF NEW CERTIFICATES. The corporation may issue a new certificate of stock in the place of any certificate theretofore issued by it, alleged to have been lost, stolen or destroyed, and the corporation may require the owner of the lost, stolen or destroyed certificate, or his or her legal representative, to give the corporation a bond sufficient to indemnify it against any claim that may be made against it on account of the alleged loss, theft or destruction of any such certificate or the issuance of such new certificate.

ARTICLE 6
INDEMNIFICATION

6.1 RIGHT TO INDEMNIFICATION. The corporation shall indemnify and hold harmless, to the fullest extent permitted by applicable law as it presently exists or may hereafter be amended, any person who was or is made or is threatened to be made a party or is otherwise involved in any action, suit or proceeding, whether civil, criminal, administrative or investigative (a "proceeding"), by reason of the fact that he or she or a person for whom he or she is the legal representative, is or was a director or officer of the corporation or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation or of a partnership, joint venture, trust, enterprise or nonprofit entity, including service with respect to employee benefit plans (an "indemnitee"), against all liability and loss suffered and expenses (including attorneys' fees) reasonably incurred by such indemnitee. The corporation shall be required to indemnify an indemnitee in connection with a proceeding (or part thereof) initiated by such indemnitee only if the initiation of such proceeding (or part thereof) by the indemnitee was authorized by the Board of Directors of the corporation.

6.2 PREPAYMENT OF EXPENSES. The corporation shall pay the expenses (including attorneys' fees) incurred by an indemnitee in defending any proceeding in advance of its final disposition, provided, however, that the payment of expenses incurred by a director or officer in advance of the final disposition of the proceeding shall be made only upon receipt of an undertaking by the director or officer to repay all amounts advanced if it should be ultimately determined that the director or officer is not entitled to be indemnified under this Article or otherwise.

6.3 CLAIMS. If a claim for indemnification or payment of expenses under this Article is not paid in full within sixty (60) days after a written claim therefor by the indemnitee has been received by the corporation, the indemnitee may file suit to recover the unpaid amount of such claim and, if successful in whole or in part, shall be entitled to be paid the expenses of prosecuting such claim. In any such action the corporation shall have the burden of proving that the indemnitee was not entitled to the requested indemnification or payment of expenses under applicable law.

6.4 NONEXCLUSIVITY OF RIGHTS. The rights conferred on any person by this Article 6 shall not be exclusive of any other rights which such person may have or hereafter acquire under any statute, provision of the Certificate of Incorporation, these By-laws, agreement, vote of stockholders or disinterested directors or otherwise.

6.5 OTHER INDEMNIFICATION. The corporation's obligation, if any, to indemnify any person who was or is serving at its request as a director, officer, employee or agent of another corporation, partnership, joint venture, trust, enterprise, or nonprofit entity shall be reduced by any amount such person may collect as indemnification from such other corporation, partnership, joint venture, trust, enterprise or nonprofit enterprise.

6.6 AMENDMENT OR REPEAL. Any repeal or modification of the foregoing provisions of this Article 6 shall not adversely affect any right or protection hereunder of any person in respect of any act or omission occurring prior to the time of such repeal or modification.

ARTICLE 7
MISCELLANEOUS

7.1 FISCAL YEAR. The fiscal year of the corporation shall be determined by resolution of the Board of Directors.

7.2 SEAL. The corporate seal shall have the name of the corporation inscribed thereon and shall be in such form as may be approved from time to time by the Board of Directors.

7.3 WAIVER OF NOTICE OF MEETINGS OF STOCKHOLDERS, DIRECTORS AND Committees. Any written waiver of notice, signed by the person entitled to notice, whether before or after the time stated therein, shall be deemed

equivalent to notice. Attendance of a person at a meeting shall constitute a waiver of notice of such meeting, except when the person attends a meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of any regular or special meeting of the stockholders, directors, or members of a committee of directors need be specified in any written waiver of notice.

7.4 INTERESTED DIRECTORS; QUORUM. No contract or transaction between the corporation and one or more of its directors or officers, or between the corporation and any other corporation, partnership, association, or other organization in which one or more of its directors or officers are directors or officers, or have a financial interest, shall be void or voidable solely for this reason, or solely because the director or officer is present at or participates in the meeting of the Board of Directors or committee thereof which authorizes the contract or transaction, or solely because his, her or their votes are counted for such purpose, if: (1) the material facts as to his or her relationship or interest and as to the contract or transaction are disclosed or are known to the Board of Directors or the committee, and the Board of Directors or committee in good faith authorizes the contract or transaction by the affirmative votes of a majority of the disinterested directors, even though the disinterested directors be less than a quorum; or (2) the material facts as to his or her relationship or interest and as to the contract or transaction are disclosed or are known to the stockholders entitled to vote thereon, and the contract or transaction is specifically approved in good faith by vote of the stockholders; or (3) the contract or transaction is fair as to the corporation as of the time it is authorized, approved or ratified by the Board of Directors, a committee thereof, or the stockholders. Common or interested directors may be counted in determining the presence of a quorum at a meeting of the Board of Directors or of a committee which authorizes the contract or transaction.

7.5 FORM OF RECORDS. Any records maintained by the corporation in the regular course of its business, including its stock ledger, books of account, and minute books, may be kept on, or be in the form of, punch cards, magnetic tape, photographs, microphotographs, or any other information storage device, provided that the records so kept can be converted into clearly legible form within a reasonable time. The corporation shall so convert any records so kept upon the request of any person entitled to inspect the same.

7.6 AMENDMENT OF BYLAWS. These Bylaws may be altered or repealed, and new Bylaws made by the Board of Directors, but the stockholders may make additional bylaws and may alter and repeal any bylaws whether adopted by them or otherwise.

EXHIBIT 4

COMMON STOCK [SYNAPTICS' LOGO] COMMON STOCK

NUMBER SHARES

S y n a p t i c s(TM)

INCORPORATED UNDER THE LAWS OF THE STATE OF DELAWARE

SEE REVERSE FOR STATEMENT RELATING TO RIGHTS, PREFERENCES, PRIVILEGES AND RESTRICTIONS, IF ANY

CUSIP

THIS IS TO CERTIFY THAT

SPECIMEN

IS THE RECORDER HOLDER OF

FULLY PAID AND NONASSESSABLE SHARES OF THE COMMON STOCK, $ PAR VALUE, OF SYNAPTICS INCORPORATED

transferable on the books of the Corporation by the holder hereof in person or by duly authorized attorney upon surrender of this certificate properly endorsed. This certificate is not valid until countersigned and registered by the Transfer Agent and Registrar.

WITNESS the facsimile seal of the Corporation and the facsimile signatures of its duly authorized officers.

Dated:

[INCORPORATED GRAPHIC]

SECRETARY CHAIRMAN OF THE BOARD

COUNTERSIGNED AND REGISTERED
TRANSFER AGENT AND REGISTRAR
BY
AUTHORIZED SIGNATURE

A statement of the rights, preferences, privileges and restrictions granted to or imposed upon the respective classes or series of shares and upon the holders thereof as established by the Articles of Incorporation of the Corporation and by any certificate of determination, and the number of shares constituting each class or series and the designations thereof, may be obtained by any shareholder of the Corporation upon written request and without charge from the Secretary of the Corporation at its corporate headquarters.

KEEP THIS CERTIFICATE IN A SAFE PLACE. IF IT IS LOST, STOLEN, OR DESTROYED THE CORPORATION WILL REQUIRE A BOND OF INDEMNITY AS A CONDITION TO THE ISSUANCE OF A REPLACEMENT CERTIFICATE.

The following abbreviations, when used in the inscription on the face of this certificate, shall be construed as though they were written out in full according to applicable laws or regulations:

TEN COM- as tenants in common

TEN ENT- as tenants by the entireties
JT TEN - as joint tenants with right survivorship and not as tenants in common

UNIF GIFT MIN ACT - ....Custodian .....
(CUST) (Minor)
under Uniform Gifts to Minors Act .....
(State)

UNIF TRF MIN ACT - Custodian (until age .....)
(CUST)
...under Uniform Transfers
(Minor)
to Minors Act. .....
(State)

Additional abbreviations may also be used though not in the above list.

FOR VALUE RECEIVED, _____ hereby sell, assign and transfer unto

PLEASE INSERT SOCIAL SECURITY OR OTHER
IDENTIFYING NUMBER OF ASSIGNEE

[ ]

_____
(PLEASE PRINT OR TYPEWRITE NAME AND ADDRESS, INCLUDING ZIP CODE, OF ASSIGNEE)

_____

_____

_____

Shares
_____
of the capital stock represented by the within Certificate, and do hereby irrevocable constitute and appoint

Attorney
_____
to transfer the said stock on the books of the within named Corporation with full power of substitution in the premises.

Dated_____

X _____

X _____

NOTICE: THE SIGNATURE(S) TO THIS ASSIGNMENT MUST CORRESPOND WITH THE NAME(S) WRITTEN UPON THE FACE OF THE CERTIFICATE IN EVERY PARTICULAR, WITHOUT ALTERATION OR ENLARGEMENT OR ANY CHANGE WHATSOEVER.

Signature(s) Guaranteed

By_____
THE SIGNATURE(S) MUST BE GUARANTEED BY AN ELIGIBLE GUARANTOR INSTITUTION (BANKS, STOCKBROKERS, SAVINGS AND LOAN ASSOCIATIONS AND CREDIT UNIONS WITH MEMBERSHIP IN AN APPROVED FOR SIGNATURE GUARANTEE MEDALLION PROGRAM), PURSUANT TO S.E.C. RULE 17Ad-15.

EXHIBIT 10.1

SYNAPTICS INCORPORATED

1986 INCENTIVE STOCK OPTION PLAN

Adopted July 3, 1986

Approved by Shareholders November 11, 1994

As Amended Through November 11, 1994

1. PURPOSE

(a) The purpose of the Plan is to provide a means by which selected key employees of Synaptics Incorporated (the "Company") and its Affiliates, as defined in subparagraph 1 (b), may be given an opportunity to purchase stock of the Company.

(b) The word "Affiliate" as used in the Plan means any parent corporation or subsidiary corporation of the Company, as those terms are defined in Sections 424(e) and (f), respectively, of the Internal Revenue Code of 1986, as amended from time to time (the "Code").

(c) The Company, by means of the Plan, seeks to retain the services of persons now holding key positions, to secure and retain the services of persons capable of filling such positions, and to provide incentives for such persons to exert maximum efforts for the success of the Company.

(d) The Company intends that the options issued under the Plan be incentive stock options as that term is used in Section 422 of the Code.

2. ADMINISTRATION

(a) The Plan shall be administered by the Board of Directors (the "Board") of the Company unless and until the Board delegates administration to a committee, as provided in subparagraph 2(c). Whether or not the Board has delegated administration, the Board shall have the final power to determine all questions of policy and expediency that may arise in the administration of the Plan.

(b) The Board shall have the power, subject to, and within the limitations of, the express provisions of the Plan:

(i) To determine from time to time which of the persons eligible under the Plan shall be granted options; when and how the option shall be granted; the provisions of each option granted (which need not be identical), including the time or times during the term of each option within which all or portions of such option may be exercised; the fair market value of the shares in accordance with subparagraph 5(b) and the number of shares for which an option shall be granted to each such person.

(ii) To construe and interpret the Plan and options granted under it, and to establish, amend and revoke rules and regulations for its administration. The Board, in the

exercise of this power, may correct any defect, omission or inconsistency in the Plan or in any option agreement, in a manner and to the extent it shall deem necessary or expedient to make the Plan fully effective.

(iii) To amend the Plan as provided in paragraph 10.

(iv) Generally, to exercise such powers and to perform such acts as the Board deems necessary or expedient to promote the best interests of the Company.

(c) The Board may delegate administration of the Plan to a committee composed of not fewer than three (3) members (the "Committee"), all of the

members of which Committee shall be disinterested persons, if required and as defined by the provisions of subparagraph 2(d). If administration is delegated to a Committee, the Committee shall have, in connection with the administration of the Plan, the powers theretofore possessed by the Board, subject, however, to such resolutions, not inconsistent with the provisions of the Plan, as may be adopted from time to time by the Board. The Board may abolish the Committee at any time and revest in the Board the administration of the Plan. Additionally, prior to the date of the first registration of an equity security of the Company under Section 12 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and notwithstanding anything to the contrary contained herein, the Board may delegate administration of the Plan to any person or persons and the term "Committee" shall apply to any person or persons to whom such authority has been delegated.

(d) The term "disinterested person," as used in this Plan, shall mean an administrator of the Plan, whether a member of the Board or of any Committee to which responsibility for administration of the Plan has been delegated pursuant to subparagraph 2(c), who is not at the time he or she exercises discretion in administering the Plan eligible and has not at any time within one (1) year prior thereto been eligible for selection as a person to whom stock may be allocated or to whom stock options or stock appreciation rights may be granted pursuant to the Plan or any other plan of the Company or any of its affiliates entitling the participants therein to acquire stock, stock options or stock appreciation rights of the Company or any of its affiliates. Any such person shall otherwise comply with the requirements of Rule 16b-3 promulgated under the Exchange Act, as from time to time in effect.

(e) Any requirement that an administrator of the Plan be a "disinterested person" shall not apply prior to the date of the first registration of an equity security of the Company under Section 12 of the Exchange Act.

3. SHARES SUBJECT TO THE PLAN

(a) Subject to the provisions of paragraph 9 relating to adjustments upon changes in stock, the stock that may be sold pursuant to options granted under the Plan shall not exceed in the aggregate Two Million Seven Hundred Thousand (2,700,000) shares of the Company's common stock; provided, however, that such aggregate number of shares shall be reduced to reflect the number of shares of the Company's common stock which has been sold under, or may be sold pursuant to outstanding options granted under, the Company's 1986 Supplemental Stock Option Plan to the same extent as if such sales had been made or options had been granted pursuant to this Plan. If any option granted under the Plan shall for any reason expire or

otherwise terminate without having been exercised in full, the stock not purchased under such option shall again become available for the Plan.

(b) The stock subject to the Plan may be unissued shares or reacquired shares, bought on the market or otherwise.

(c) An option may be granted to an eligible person under the Plan only if the aggregate fair market value (determined at the time the option is granted) of the stock with respect to which incentive stock options are exercisable for the first time by such optionee during any calendar year under all incentive stock option plans of the Company and its Affiliates does not exceed one hundred thousand dollars ($100,000). Should it be determined that an option granted under the Plan exceeds such maximum for any reason other than the failure of a good faith attempt to value the stock subject to the option, such option shall be considered a nonstatutory stock option to the extent, but only to the extent, of such excess; provided, however, that should it be determined that an entire option or any portion thereof does not qualify for treatment as an incentive stock option by reason of exceeding such maximum, such option or the applicable portion shall be considered a nonstatutory stock option.

4. ELIGIBILITY

(a) Options may be granted only to key employees (including officers) of the Company or its Affiliates. A director of the Company shall not be eligible for the benefits of the Plan unless such director is also a key employee (including an officer) of the Company or any Affiliate.

(b) A director shall in no event be eligible for the benefits of the Plan

unless and until such director is expressly declared eligible to participate in the Plan by action of the Board or the Committee, and only if, at any time discretion is exercised by the Board in the selection of a director as a person to whom options may be granted, or in the determination of the number or maximum number of shares which may be covered by options granted to a director, a majority of the Board and a majority of the directors acting in such matter are disinterested persons, as defined in subparagraph 2(d). The Board shall otherwise comply with the requirements of Rule 16b-3 promulgated under the Exchange Act, as from time to time in effect. This subparagraph 4(b) shall not apply prior to the date of the first registration of an equity security of the Company under Section 12 of the Exchange Act.

(c) No person shall be eligible for the grant of an option under the Plan if, at the time of grant, such person owns (or is deemed to own pursuant to the attribution rules of Section 424(d) of the Code) stock possessing more than ten percent (10%) of the total combined voting power of all classes of stock of the Company or of any of its Affiliates unless the option price is at least one hundred ten percent (110%) of the fair market value of such stock at the date of grant and the term of the option does not exceed five (5) years from the date of grant.

5. OPTION PROVISIONS

Each option shall be in such form and shall contain such terms and conditions as the Board or the Committee shall deem appropriate. The provisions of separate options need not be

identical, but each option shall include (through incorporation of provisions hereof by reference in the option or otherwise) the substance of each of the following provisions:

(a) The date of grant of an Option shall, for all purposes, be the date on which the Administrator makes the determination granting such Option, or such other date as is determined by the Board. Notice of the determination shall be given to each Employee or Consultant to whom an Option is so granted within a reasonable time after the date of such grant.

(b) The term of any option shall not be greater than ten (10) years from the date it was granted, unless subparagraph 4(c) applies in which case such term shall not be greater than five (5) years.

(c) "Fair Market Value" means, as of any date, the fair market value of Common Stock determined as follows:

(i) If the Common Stock is listed on any established stock exchange or a national market system including without limitation the National Market System of the National Association of Securities Dealers, Inc. Automated Quotation ("NASDAQ") System, its Fair Market Value shall be the closing sales price for such stock (or the closing bid, if no sales were reported), as quoted on such system or exchange, or the exchange with the greatest volume of trading in Common Stock for the last market trading day prior to the time of determination, as reported in The Wall Street Journal or such other source as the Administrator deems reliable;

(ii) If the Common Stock is quoted on the NASDAQ System (but not on the National Market System thereof) or regularly quoted by a recognized securities dealer but selling prices are not reported, its Fair Market Value shall be the mean between the high bid and low asked prices for the Common Stock for the last market trading day prior to the time of determination, as reported in The Wall Street Journal or such other source as the Administrator deems reliable; or

(iii) In the absence of an established market for the Common Stock, the Fair Market Value thereof shall be determined in good faith by the Administrator.

(d) The exercise price of each option shall be not less than one hundred percent (100%) of the Fair Market Value of the stock subject to the option on the date the option is granted, unless subparagraph 4(c) applies to the option in which case the price shall be at least one hundred ten percent (110%) percent of the fair market value.

(e) The consideration to be paid for the Shares to be issued upon exercise of an Option, including the method of payment, shall be determined by the Board or the Committee (and, in the case of an Incentive Stock Option, shall be determined at the time of grant) and may consist entirely of (1) cash, (2) check, (3) promissory note, (4) other shares that (x) in the case of Shares acquired upon exercise of an option, have been owned by the optionee for more than six months on the date of surrender or such other period as may be required to avoid a charge to the Company's earnings, and (y) have a Fair Market Value on the date of surrender equal to the aggregate exercise price of the shares as to which such option shall be exercised, (5) authorization for the Company to retain from the total number of shares as to which the option is exercised that number of shares having a Fair Market Value on the date of exercise equal to the

exercise price for the total number of shares as to which the option is exercised, (6) delivery of a properly executed exercise notice together with such other documentation as the Board and the broker, if applicable, shall require to effect an exercise of the option and delivery to the Company of the sale or loan proceeds required to pay the exercise price and any applicable income or employment taxes, (7) delivery of an irrevocable subscription agreement for the shares that irrevocably obligates the option holder to take and pay for the shares not more than twelve months after the date of delivery of the subscription agreement, (8) any combination of the foregoing methods of payment, or (9) such other consideration and method of payment for the issuance of shares to the extent permitted under applicable laws. In making its determination as to the type of consideration to accept, the Board shall consider if acceptance of such consideration may be reasonably expected to benefit the Company.

In the case of any deferred payment arrangement, interest shall be payable at least annually and shall be charged at the minimum rate of interest necessary to avoid the treatment as interest, under any applicable provisions of the Code, of any amounts other than amounts stated to be interest under the deferred payment arrangement.

(f) An option shall not be transferable except by will or by the laws of descent and distribution, and shall be exercisable during the lifetime of the person to whom the option is granted only by such person.

(g) The total number of shares of stock subject to an option may, but need not, be exercisable in periodic installments (which may, but need not, be equal), provided, however, that each option shall become exercisable at the rate of at least twenty (20%) percent per year over five (5) years from the date the option is granted. From time to time during each of such installment periods, the option may be exercised with respect to some or all of the shares allotted to that period, and/or with respect to some or all of the shares allotted to any prior period as to which the option was not fully exercised. During the remainder of the term of the option (if its term extends beyond the end of the installment periods), the option may be exercised from time to time with respect to any shares then remaining subject to the option.

(h) The Company may require any optionee, or any person to whom an option is transferred under subparagraph 5(d), as a condition of exercising any such option: (1) to give written assurances satisfactory to the Company as to the optionee's knowledge and experience in financial and business matters and/or to employ a purchaser representative reasonably satisfactory to the Company who is knowledgeable and experienced in financial and business matters, and that he or she is capable of evaluating, alone or together with the purchaser representative, the merits and risks of exercising the option; and (2) to give written assurances satisfactory to the Company stating that such person is acquiring the stock subject to the option for such person's own account and not with any present intention of selling or otherwise distributing the stock. These requirements, and any assurances given pursuant to such requirements, shall be inoperative if (i) the issuance of the shares upon the exercise of the option has been registered under a then currently effective registration statement under the Securities Act of 1933, as amended (the "Securities Act"), or (ii), as to any particular requirement, a determination is made by counsel for the Company that such requirement need not be met in the circumstances under the then applicable securities laws.

(i) An option shall terminate three (3) months after termination of the optionee's employment with the Company or an Affiliate, unless (i) the termination of employment of the optionee is due to such person's disability as determined below, in which case the option may, but need not, provide that it may be exercised at any time within twelve (12) months following such termination of employment; or (ii) the optionee dies while in the employ of the Company or an Affiliate, or within not more than three (3) months alter termination of such employment, in which case the option may, but need not, provide that it may be exercised at any time within eighteen (18) months following the death of the optionee by the person or persons to whom the optionee's rights under such option pass by will or by the laws of descent and distribution; or (iii) the option by its terms specifies either (a) that it shall terminate sooner than three (3) months after termination of the optionee's employment, or (b) that it may be exercised more than three (3) months after termination of the optionee's employment with the Company or an Affiliate. This subparagraph 5(g) shall not be construed to extend the term of any option or to permit anyone to exercise the option after expiration of its term, nor shall it be construed to increase the number of shares as to which any option is exercisable from the amount exercisable on the date of termination of the optionee's employment.

(i) In the event of termination of an optionee's employment as a result of a disability, optionee may, but only within twelve (12) months from the date of such termination (but in no event later than the expiration date of the term of such option as set forth in the Option Agreement), exercise the option to the extent otherwise entitled to exercise it at the date of such termination. However, to the extent that such optionee's disability does not fall within the meaning of total and permanent disability as set forth in Section 22(e)(3) of the Code and Optionee fails to exercise the Option within three (3) months of the date of termination, the Option will not qualify for incentive stock option treatment under the Code. To the extent that optionee was not entitled to exercise the option at the date of termination, or if optionee does not exercise such option to the extent so entitled within twelve months (12) from the date of termination, the option shall terminate.

(j) The option may, but need not, include a provision whereby the optionee may elect at any time during the term of his or her employment with the Company or any Affiliate to exercise the option as to any part or all of the shares subject to the option prior to the stated vesting date of the option or of any installment or installments specified in the option. Any shares so purchased from any unvested installment or option may be subject to a repurchase right in favor of the Company or to any other restriction the Board or the Committee determines to be appropriate.

6. COVENANTS OF THE COMPANY

(a) During the terms of the options granted under the Plan, the Company shall keep available at all times the number of shares of stock required to satisfy such options.

(b) The Company shall seek to obtain from each regulatory commission or agency having jurisdiction over the Plan such authority as may be required to issue and sell shares of stock upon exercise of the options granted under the Plan; provided, however, that this undertaking shall not require the Company to register under the Securities Act either the Plan, any option granted under the Plan or any stock issued or issuable pursuant to any such option. If,

after reasonable efforts, the Company is unable to obtain from any such regulatory commission or agency the authority that counsel for the Company deems necessary for the lawful issuance and sale of stock under the Plan, the Company shall be relieved from any liability for failure to issue and sell stock upon exercise of such options unless and until such authority is obtained.

7. USE OF PROCEEDS FROM STOCK

Proceeds from the sale of stock pursuant to options granted under the Plan shall constitute general funds of the Company.

8. MISCELLANEOUS

(a) Neither an optionee nor any person to whom an option is transferred under subparagraph 5(f) shall be deemed to be the holder of, or to have any of the rights of a holder with respect to, any shares subject to such option unless and until such person has satisfied all requirements for exercise of the option pursuant to its terms.

(b) Nothing in the Plan or any instrument executed or option granted pursuant thereto shall confer upon any eligible employee or optionee any right to continue in the employ of the Company or any Affiliate or shall affect the right of the Company or any Affiliate to terminate the employment of any eligible employee or optionee with or without cause.

9. ADJUSTMENTS UPON CHANGES IN STOCK

(a) Changes in Capitalization. Subject to any required action by the shareholders of the Company, the number of shares of stock covered by each outstanding option, and the number of shares of stock that have been authorized for issuance under the Plan but as to which no options have yet been granted or that have been returned to the Plan upon cancellation or expiration of an option, as well as the price per share of stock covered by each such outstanding option, shall be proportionately adjusted for any increase or decrease in the number of issued shares of stock resulting from a stock split, reverse stock split, stock dividend, combination, recapitalization or reclassification of the common or any other increase or decrease in the number of issued shares of stock effected without receipt of consideration by the Company; provided, however, that conversion of any convertible securities of the Company shall not be deemed to have been "effected without receipt of consideration." Such adjustment shall be made by the Board, whose determination in that respect shall be final, binding and conclusive. Except as expressly provided herein, no issuance by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number or price of shares of stock subject to an option.

(b) Dissolution or Liquidation. In the event of the proposed dissolution or liquidation of the Company, the Board shall notify the optionee at least fifteen (15) days prior to such proposed action. To the extent it has not been previously exercised, the option will terminate immediately prior to the consummation of such proposed action.

(c) Merger or Sale of Assets. In the event of a proposed sale of all or substantially all of the Company's assets or a merger of the Company with or into another corporation where the successor corporation issues its securities to the Company's shareholders, each outstanding

option shall be assumed or an equivalent option shall be substituted by such successor corporation or a parent or subsidiary of such successor corporation, unless the successor corporation does not agree to assume the option or to substitute an equivalent option, in which case such option shall terminate upon the consummation of the merger or sale of assets.

10. AMENDMENT OF THE PLAN

(a) The Board at any time, and from time to time, may amend the Plan. However, except as provided in paragraph 9 relating to adjustments upon changes in stock, no amendment shall be effective unless approved by the shareholders of the Company in the degree and manner required under applicable state and federal law and the rule of any stock exchange upon which the stock is listed within twelve (12) months before or after the adoption of the amendment, where the amendment will:

(i) Increase the number of shares reserved for options under the Plan;

(ii) Materially modify the requirements as to eligibility for participation in the Plan; or

(iii) Materially increase the benefits accruing to participants under

the Plan.

(b) It is expressly contemplated that the Board may amend the Plan in any respect the Board deems necessary or advisable to provide optionees with the maximum benefits provided or to be provided under the provisions of the Code and the regulations promulgated thereunder relating to employee incentive stock options and/or to bring the Plan and/or options granted under it into compliance therewith.

(c) Rights and obligations under any option granted before amendment of the Plan shall not be altered or impaired by any amendment of the Plan unless (i) the Company requests the consent of the person to whom the option was granted and (ii) such person consents in writing.

11. TERMINATION OR SUSPENSION OF THE PLAN

(a) The Board may suspend or terminate the Plan at any time. Unless sooner terminated, the Plan shall terminate ten (10) years from the date the Plan is adopted by the Board or approved by the stockholders of the Company, whichever is earlier. No options may be granted under the Plan while the Plan is suspended or after it is terminated.

(b) Rights and obligations under any option granted while the Plan is in effect shall not be altered or impaired by suspension or termination of the Plan, except with the consent of the person to whom the option was granted.

12. EFFECTIVE DATE OF PLAN

The Plan shall become effective as determined by the Board, but no options granted under the Plan shall be exercised unless and until the Plan has been approved by the shareholders

of the Company as set forth in Section 10(a) and, if required, an appropriate permit has been issued by the Commissioner of Corporations of the State of California.

13. INFORMATION TO OPTIONEES AND PURCHASERS

The Company shall provide financial statements at least annually to each optionee during the period such optionee has one or more options outstanding, and in the case of an individual who acquired shares pursuant to the Plan, during the period such individual owns such Shares. The Company shall not be required to provide such information if the issuance of options under the Plan is limited to key employees whose duties in connection with the Company assure their access to equivalent information.

FORM OF GRANT AGREEMENT

IT IS UNLAWFUL TO CONSUMMATE A SALE OR TRANSFER OF THIS SECURITY, OR ANY INTEREST THEREIN, OR TO RECEIVE ANY CONSIDERATION THEREOF, WITHOUT THE PRIOR WRITTEN CONSENT OF THE COMMISSIONER OF CORPORATIONS OF THE STATE OF CALIFORNIA, EXCEPT AS PERMITTED IN THE COMMISSIONER'S RULES.

INCENTIVE STOCK OPTION

_____:

Synaptics Incorporated (the "Company:), pursuant to its 1986 Incentive

Stock Option Plan (the "Plan") has this day granted to you, the optionee named above, an option to purchase shares of the common stock of the Company ("Common Stock"). This option is intended to qualify as an "incentive stock option" within the meaning of Section 422A of the Internal Revenue Code of 1986, as amended from time to time (the "Code").

The grant hereunder is in connection with and in furtherance of the Company's compensatory benefit plan for participation of the Company's employees (including officers), directors or consultants and is intended to comply with the provisions of Rule 701 promulgated by the Securities and Exchange Commission under the Securities Act of 1933, as amended (the "Act").

The details of your option are as follows:

1. The total number of shares of Common Stock subject to this option is _____ (_____). Subject to the limitations contained herein, this option shall be exercisable with respect to each installment shown below on or after the date of vesting applicable to such installment, as follows:

Number of Shares (Installment)	Date of Earliest Exercise (Vesting)
_____	_____

See Attachment for complete vesting schedule.

2. (a) The exercise price of this option is ($.___) per share, being not less than the fair market value of the Common Stock on the date of grant of this option.

(b) Payment of the exercise price per share is due in full in cash (including check) upon exercise of all or any part of each installment which has become exercisable by you; provided, however, that if at the time of exercise the Company's Common Stock is publicly traded and quoted regularly in the Wall Street Journal, payment of the exercise price, to the extent permitted by applicable statutes an regulations, any be made by delivery of already-owned share of Common Stock, or a Stock (i) shall be valued at its fair market value on the date of exercise, (ii) if originally acquired from the Company, must have been owned by you for at least six (6) months and (iii) must be owned free and clear of any liens, claims, encumbrances or security interests.

(c) Notwithstanding the foregoing, this option may be exercised pursuant to a program developed under Regulation T as promulgated by the Federal Reserve Board which results in the receipt of cash (or check) by the Company prior to the issuance of common Stock.

11

3. The minimum number of shares with respect to which this option may be exercised at any one time is _____ (_____) except (a) as to an installment subject to exercise, as set forth in paragraph 1, which amounts to fewer than _____ (_____) shares, in which case, as to the exercise of that installment, the number of shares in such installment shall be the minimum number of shares, and (b) with respect to the final exercise of the option this minimum shall not apply. In no event may this option be exercised for Any number of shares which would required the issuance of anything other than whole shares.

4. Notwithstanding anything to the contrary contained herein, this option may not be exercised unless the shares issuable upon exercise of the i option are then registered under the Act or, if such shares are not then so registered, the Company has determined that such exercise and issuance would be exempt from the registration requirements of the Act.

5. The term of this option commences on the date hereof and , unless sooner terminated as set forth below or in the Plan, terminates on (_____). Any other provision herein to the contrary notwithstanding, this option shall not be exercisable after the expiration of 10 years from the date such option was granted. This option shall terminate prior to the

expiration of its term as follows: three (3) months after the termination of your employment with the Company or an affiliate of the Company (and defined in the Plan) for any reason or for no reason unless:

(a) such termination of employment is due to your permanent and total disability (within the meaning of Section 422A(c) (7) of the Code), in which event the option shall terminate on the earlier of the termination date set forth above or one (1) year following such termination of employment; or

(b) such termination of employment is due to your death, in which event the option shall terminate on the earlier of the termination date set forth above or eighteen (18) months after your death; or

(c) during any part of such three (3) month period the option is not exercisable solely because of the condition set forth in paragraph 4 above, in which event the option shall not terminate until the earlier of the termination date set forth above or until it shall have been exercisable for an aggregate period of three (3) months after the termination of employment' or

(d) exercise of the option within three (3) months after termination of you employment with the Company or with any affiliate would result in liability under section 16(b) of the Securities Exchange Act of 1934, in which case the option will terminate on the earlier of (i) the termination date set forth above, (ii) the tenth (10th) day after the last date upon which exercise would result in such liability or (iii) six (6) months and ten (10) days after the termination of your employment with the Company or an affiliate.

However, this option maybe exercised following termination of employment only as to that number of shares as to which it was exercisable on the date of termination of employment under the provisions of paragraph 1 of this option.

6. (a) This option may be exercised, to the extent specified above, by delivering a notice of exercise (in a form designated by the Company) together with the exercise price to the Secretary of the company, or to such other person as the Company may designate, during regular business hours, together with such additional documents as the company may then require pursuant subparagraph 5(f) of he Plan.

(b) By exercising this option you agree that:

(i) the Company may require you to enter an arrangement providing for the payment by you to the Company of any tax withholding obligation of the Company arising by reason of (1) the exercise of this option; (2) the lapse of any substantial risk of forfeiture to which the shares are subject at the time of exercise; or (3) the disposition of shares acquired upon such exercise;

(ii) you will notify the Company in writing within fifteen (15) days after the date of any disposition of any of the shares of the Common Stock issued upon exercise of this option that occurs within tow (2) years after the date of this option grant or within one (1) year after such shares of Common Stock are transferred upon exercise of this option; and

(iii) the Company (or a representative of the underwriters) may, in connection with the first underwritten registration of the offering of any securities of the Company under the Act, require that you not sell or otherwise transfer or dispose of any shares of Common Stock or the securities of the Company during such period (not to exceed one hundred twenty (120) days) following the effective date (the "Effective Date") of the registration statement of the company fled under the Act as may be requested by the Company or the representative of the underwriters; provided, however, that such restriction shall apply only if, on the Effective Date, you are an officer, director, or owner of more than one percent (1%) of the outstanding securities of the Company. For purposes of this restriction you will be deemed to own securities which (i) are owned directly or indirectly by you, including securities held for your benefit by nominees, custodians, brokers or pledges; (ii) may be acquired by you within sixty (60) days of the Effective Date; (iii) are owned directly or indirectly, by or for your brothers or sisters (whether by whole or half blood) spouse, ancestors and lineal descendants; or (iv) are owned, directly or indirectly, by or for a corporation, partnership, estate or trust of which you are a shareholder, partner of beneficiary, but only to the

extent of his proportionate interest therein as a shareholder, partner or beneficiary thereof. You further agree that the Company may impose stop-transfer instructions with respect to securities subject to the foregoing restrictions until the end of such period.

7. This option is not transferable, except by will or by the lass of descent and distribution, and is exercisable during you life on only by you.

8. This option is not an employment contract and nothing in this option shall be deemed to create in any way whatsoever any obligation on your part to continue in the employ of the Company, or of the Company to continue your employment with the Company.

9. Any notices provided for in this option or the Plan shall be given in writing and shall be deemed effectively given upon receipt of , in the case of notices delivered by the Company to you, five (5) days after deposit in the United States mail, postage prepaid, addressed to you at the address specified below or at such other address as you hereafter designate by written notice to the company.

10. This option is subject to all the provisions of the Plan, a copy of which is attached hereto and its provisions are hereby made a part of this option, including without limitation the provisions of paragraph 5 of the Plan relating to option provisions, and is further subject to all interpretations, amendments, rules and regulations which may from time to time be promulgated and adopted pursuant to the Plan. In the event of any conflict between the provisions of this option and those of the Plan, the provision of the Plan shall control.

Dated the _____ day of _____, 19_____.

Very truly yours,

SYNAPTICS INCORPORATED

By _____
Duly authorized on behalf of the
Board of Directors

Optionee_____

Address_____

_____

Attachments:

1986 Incentive Stock Option Plan
Regulation 260.141.11
Form of Exercise
Vesting Schedule

INCENTIVE STOCK OPTION VESTING SCHEDULE

NUMBER OF SHARES EARLIEST VESTING DATE

TOTAL

SECTION 260.141.11

TITLE 10, CALIFORNIA ADMINISTRATIVE CODE

RULE 260.141.11 RESTRICTION OF TRANSFER

(a) The issuer of any security upon which a restriction on transfer has been imposed pursuant to Sections 260.102.6, 260.141.10 or 260.534 shall cause a copy of this section to be delivered to each issuee or transferee of such security at the time the certificate evidencing the security is delivered to the issuee or transferee.

(b) It is unlawful for the holder of any such security to consummate a sale or transfer of such security, or any interest therein, without the prior written consent of the Commissioner (until this condition is removed pursuant to Section 260.141.12 of these rules), except:

(1) to the issuer;

(2) pursuant to the order or process of any court;

(3) to any person described in Subdivision (i) of Section 25102 of the Code or Section 260.105.14 of these rules;

(4) to the transferor's ancestors, descendants or spouse, or any custodian or trustee for the account of the transferor or the transferee by a trustee or custodian for the account of the transferee or the transferee's ancestors, descendants or spouse;

(5) to holders of securities of the same class of the same issuer;

(6) by way of gift or donation inter vivos or on death;

(7) by or through a broker-dealer licensed under the Code (either acting as such or as a finder) to a resident of a foreign state, territory or country who is neither domiciled in this state to the knowledge of the broker-dealer, nor actually present in this state if the sale of such securities is not in violation of any securities law of the foreign state, territory or country concerned;

(8) to a broker-dealer licensed under the Code in a principal transaction, or as an underwriter or member of an underwriting syndicate or selling group;

(9) if the interest sold or transferred is a pledge or other lien given by the purchaser to the seller upon a sale of the security for which the Commissioner's written consent is obtained or under this rule not required;

(10) by way of a sale qualified under Sections 25111, 25112, 25113, or 25121 of the Code, of the securities to be transferred, provided that no order under Section 25140 or subdivision (a) of Section 25143 is in effect with respect to such qualifications;

(11) by a corporation to a wholly owned subsidiary of such corporation, or by a wholly owned subsidiary of a corporation to

such corporation;

(12) by way of an exchange qualified under Section 25111, 25112 or 25113 of the Code, provided that no order under Section 25140 or subdivision (a) of Section 25143 is in effect with respect to such qualification;

(13) between residents of foreign states, territories or countries who are neither domiciled nor actually present in this state;

(14) to the State Controller pursuant to the Unclaimed Property Law or to the administrator of the unclaimed property law or another state; or

(15) by the State Controller pursuant to the Unclaimed Property Law or by the administrator of the unclaimed property law of another state if, in either such case, such person (i) discloses to potential purchasers at the sale that transfer of the securities is restricted under this rule, (ii)_ delivers to each purchaser a copy of this rule, and (iii) advises the Commissioner of the name of each purchaser;

(16) by a trustee to a successor trustee when such transfer does not involve a change in the beneficial ownership of the securities;

(17) by way of an offer and sale of outstanding securities in an issuer transaction that is subject to the qualification requirement of Section 25110 of the Code by exempt from that qualification requirement by subdivision (f) of Section 25102; provided that any such transfer is on the

condition that any certificate evidencing the security issued to such transferee shall contain the legend required by this section .

(c) The certificates representing all such securities subject to such a restriction on transfer, whether upon initial issuance or upon any transfer thereof, shall bear on their face a legend, prominently stamped or printed thereon in capital letters of not less than 10-point size, reading as follows:

"IT IS UNLAWFUL TO CONSUMMATE A SALE OR TRANSFER OF THIS SECURITY, OR ANY INTEREST THEREIN, OR TO RECEIVE ANY CONSIDERATION THEREFOR, WITHOUT THE PRIOR WRITTEN CONSENT OF THE COMMISSIONER OF CORPORATIONS OF THE STATE OF CALIFORNIA, EXCEPT AS PERMITTED IN THE COMMISSIONER'S RULES."

ACKNOWLEDGMENT OF STOCK OPTION
Synaptics, Incorporated

The undersigned:

(a) Acknowledges receipt of the foregoing option and the attachments referenced therein an understands that all rights and liabilities with respect to this option are set forth in the option and the Plan; and

(b) Acknowledges that as of the date of grant of this option (), it sets forth the entire understanding between the undersigned optionee and the Company and its affiliates regarding the acquisition of stock in the Company and supersedes all prior oral and written agreements on that subject with the exception of the following agreements only:

NONE _____
(Initial)

OTHER _____

_____

_____

(c) Acknowledges receipt of a copy of Section 260.141.11 of Title 10 of the California Code of Regulations.

_____
Optionee

Address: _____

_____

NOTICE OF EXERCISE Date of Exercise:_____
Synaptics Incorporated
2698 Orchard Parkway
San Jose, CA 95134

Secretary, Board of Directors:

This constitutes notice under the Synaptics Incorporated (the "Company") stock option granted to me on (the "Option" that I elect to purchase the number of shares for the price set forth below:

Type of Option (Check one) Incentive_____ Supplemental_____

Number of shares as to which the option is exercised:_____

Certificate to be issued in name of:_____

Total exercise price: _____ Cash payment delivered herewith:_____

By this exercise, I agree (i) to provide such additional documents as you may required pursuant to the terms of the Company's 1986 Incentive Stock Option Plan or 1986 Supplemental Stock Option Plan, as the case may be, (ii) to provide for the payment by me to you (in the manner designated by you) of your withholding obligation, if any relating to the exercise of this Option, and (iii) if this exercise relates to an incentive stock option, to notify you in writing within fifteen (15) days after the date of any disposition of any of the shares of Common Stock issued upon exercise of this Option that occurs within two (2) years after the date of grant of this Option or within one (1) year after such shares of Common Stock are issued upon exercise of this Option.

I hereby make the following certifications and representations with respect to the number of shares of Common Stock of the Company listed above (the "Shares"), which are being acquired by me for my own account upon exercise of the Option as set forth above:

I acknowledge that the Shares have not been registered under the Securities Act

of 1933, as amended (the "Act"), and are deemed to constitute "restricted securities: under Rule 701 and Rule 144 promulgated under the Act. I warrant and represent to the Company that I have no present intention of distributing or selling said Shares, except as permitted under the Act and any applicable state securities laws.

I further acknowledge that I will not be able to resell the Shares for at least three years from the date of sale of the Shares under the Rule 144(k) or until ninety days after the stock of the Company becomes publicly traded (i.e., subject to the reporting requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934) under Rule 701; and that more restrictive conditions apply to affiliates of the Company.

I further acknowledge that all certificates representing any of the Shares subject to the provisions of the Option shall have endorsed thereon appropriate legends reflecting the foregoing limitations, as well as any legends reflecting restrictions pursuant to the Company's Articles of Incorporation, Bylaws and/or applicable securities laws.

I further agree that for a period of 120 days following the effective date of the first registrations statement of the Company covering Common Stock (or other securities) to be sold on its behalf in an under written public offering, I shall not, to the extent requested by the Company and any underwriter, sell or otherwise transfer or dispose of (other than to donees who agree to be similarly bound) any Common Stock of the Company held by me at any time during such period except Common Stock included in such registration; provided, however, that all officers and directors of the company who hold securities of the Company or options to acquire securities of the Company enter into similar agreements.

Very truly yours,

Signature_____ Print Name _____

EXHIBIT 10.2

SYNAPTICS INCORPORATED

1986 SUPPLEMENTAL STOCK OPTION PLAN

Adopted July 3, 1986

Approved by Shareholders November 11, 1994

As Amended Through November 11, 1994

1. PURPOSE

(a) The purpose of the Plan is to provide a means by which selected employees and directors (if declared eligible under paragraph 4) of and consultants to Synaptics Incorporated (the "Company") and its Affiliates, as defined in subparagraph 1(b) may be given an opportunity to purchase stock of the Company.

(b) The word "Affiliate" as used in the Plan means any parent corporation or subsidiary corporation of the Company as those terms are defined in Sections 424(e) and (f), respectively, of the Internal Revenue Code of 1986, as amended from time to time (the "Code").

(c) The Company, by means of the Plan, seeks to retain the services of persons now employed by or serving as consultants or directors to the Company, to secure and retain the services of persons capable of filling such positions, and to provide incentives for such persons to exert maximum efforts for the success of the Company.

(d) The Company intends that the options issued under the Plan not be incentive stock options as that term is used in Section 422 of the Code.

2. ADMINISTRATION

(a) The Plan shall be administered by the Board of Directors (the "Board") of the Company unless and until the Board delegates administration to a committee, as provided in subparagraph 2(c). Whether or not the Board has delegated administration, the Board shall have the final power to determine all questions of policy and expediency that may arise in the administration of the Plan.

(b) The Board shall have the power, subject to, and within the limitations of, the express provisions of the Plan:

(i) To determine from time to time which of the persons eligible under the Plan shall be granted options; when and how the option shall be granted; the provisions of each option granted (which need not be identical), including the time or times during the term of each option within which all or portions of such option may be exercised; the fair market value of the shares in accordance with subparagraph 5(b) and the number of shares for which an option shall be granted to each such person.

(ii) To construe and interpret the Plan and options granted under it, and to establish, amend and revoke rules and regulations for its administration. The Board, in the exercise of this power, may correct any defect, omission or inconsistency in the Plan or in any option agreement, in a manner and to the extent it shall deem necessary or expedient to make the Plan fully effective.

(iii) To amend the Plan as provided in paragraph 10.

(iv) Generally, to exercise such powers and to perform such acts as the Board deems necessary or expedient to promote the best interests of the Company.

(c) The Board may delegate administration of the Plan to a committee composed of not fewer than three (3) members (the "Committee"), all of the

members of which Committee shall be disinterested persons, if required and as defined by the provisions of subparagraph 2(d). If administration is delegated to a Committee, the Committee shall have, in connection with the administration of the Plan, the powers theretofore possessed by the Board, subject, however, to such resolutions, not inconsistent with the provisions of the Plan, as may be adopted from time to time by the Board. The Board may abolish the Committee at any time and revest in the Board the administration of the Plan. Additionally, prior to the date of the first registration of an equity security of the Company under Section 12 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and notwithstanding anything to the contrary contained herein, the Board may delegate administration of the Plan to any person or persons and the term "Committee" shall apply to any person or persons to whom such authority has been delegated.

(d) The term "disinterested person," as used in this Plan, shall mean an administrator of the Plan, whether a member of the Board or of any Committee to which responsibility for administration of the Plan has been delegated pursuant to subparagraph 2(c), who is not at the time he or she exercises discretion in administering the Plan eligible and has not at any time within one (1) year prior thereto been eligible for selection as a person to whom stock may be allocated or to whom stock options or stock appreciation rights may be granted pursuant to the Plan or any other plan of the Company or any of its affiliates entitling the participants therein to acquire stock, stock options or stock appreciation rights of the Company or any of its affiliates. Any such person shall otherwise comply with the requirements of Rule 16b-3 promulgated under the Exchange Act.

(e) Any requirement that an administrator of the Plan be a "disinterested person" shall not apply prior to the date of the first registration of an equity security of the Company under Section 12 of the Exchange Act.

3. SHARES SUBJECT TO THE PLAN

(a) Subject to the provisions of paragraph 9 relating to adjustments upon changes in stock, the stock that may be sold pursuant to options granted under the Plan shall not exceed in the aggregate Two Million Seven Hundred Thousand (2,700,000) shares of the Company's common stock provided, however, that such aggregate number of shares shall be reduced to reflect the number of shares of the Company's common stock which has been sold under, or may

be sold pursuant to outstanding options granted under, the Company's 1986 Incentive Stock Option Plan to the same extent as if such sales had been made or options had been granted pursuant to this Plan. If any option granted under the Plan shall for any reason expire or otherwise terminate without having been exercised in full, the stock not purchased under such option shall again become available for the Plan.

(b) The stock subject to the Plan may be unissued shares or reacquired shares, bought on the market or otherwise.

(c) There is no maximum limit on the aggregate fair market value of the stock for which any eligible person may be granted options under the Plan in any calendar year.

4. ELIGIBILITY

(a) Options may be granted only to employees (including officers) of or consultants to the Company or its Affiliates. A director of the Company shall not be eligible for the benefits of the Plan unless such director is also a key employee (including an officer) of or consultant to the Company or any Affiliate.

(b) A director shall in no event be eligible for the benefits of the Plan unless and until such director is expressly declared eligible to participate in the Plan by action of the Board or the Committee, and only if, at any time discretion is exercised by the Board in the selection of a director as a person to whom options may be granted, or in the determination of the number or maximum number of shares which may be covered by options granted to a director, a

majority of the Board and a majority of the directors acting in such matter are disinterested persons, as defined in subparagraph 2(d). The Board shall otherwise comply with the requirements of Rule 16b-3 promulgated under the Exchange Act, as from time to time in effect. This subparagraph 4(b) shall not apply prior to the date of the first registration of an equity security of the Company under Section 12 of the Exchange Act.

(c) No person shall be eligible for the grant of an option under the Plan if, at the time of grant, such person owns stock possessing more than ten percent (10%) of the total combined voting power of all classes of stock of the Company or of any of its Affiliates unless the option price is at least one hundred ten percent (110%) of the fair market value of such stock at the date of grant and the term of the option does not exceed five (5) years from the date of grant.

5. OPTION PROVISIONS

Each option shall be in such form and shall contain such terms and conditions as the Board or the Committee shall deem appropriate. The provisions of separate options need not be identical, but each option shall include (through incorporation of provisions hereof by reference in the option or otherwise) the substance of each of the following provisions:

(a) The date of grant of an Option shall, for all purposes, be the date on which the Administrator makes the determination granting such Option, or such other date as is determined

by the Board. Notice of the determination shall be given to each Employee or Consultant to whom an Option is so granted within a reasonable time after the date of such grant.

(b) The term of any option shall not be greater than ten (10) years from the date it was granted, unless subparagraph 4(c) applies in which case such term shall not be greater than five (5) years.

(c) "Fair Market Value" means, as of any date, the fair market value of Common Stock determined as follows:

(i) If the Common Stock is listed on any established stock exchange or a national market system including without limitation the National Market System of the National Association of Securities Dealers, Inc. Automated Quotation ("NASDAQ") System, its Fair Market Value shall be the closing sales price for such stock (or the closing bid, if no sales were reported), as quoted on such system or exchange, or the exchange with the greatest volume of trading in Common Stock for the last market trading day prior to the time of determination, as reported in The Wall Street Journal or such other source as the Administrator deems reliable;

(ii) If the Common Stock is quoted on the NASDAQ System (but not on the National Market System thereof) or regularly quoted by a recognized securities dealer but selling prices are not reported, its Fair Market Value shall be the mean between the high bid and low asked prices for the Common Stock for the last market trading day prior to the time of determination, as reported in The Wall Street Journal or such other source as the Administrator deems reliable; or

(iii) In the absence of an established market for the Common Stock, the Fair Market Value thereof shall be determined in good faith by the Administrator.

(d) The exercise price of each option shall be not less than eighty-five percent (85%) of the fair market value of the stock subject to the option on the date the option is granted, unless subparagraph 4(c) applies in which case the price shall be at least one hundred ten (110%) percent of the fair market value.

(e) The consideration to be paid for the Shares to be issued upon exercise of an Option, including the method of payment, shall be determined by the Board or the Committee (and, in the case of an Incentive Stock Option, shall be determined at the time of grant) and may consist entirely of (1) cash, (2) check, (3) promissory note, (4) other Shares that (x) in the case of Shares acquired upon exercise of an Option, have been owned by the Optionee for more

than six months on the date of surrender or such other period as may be required to avoid a charge to the Company's earnings, and (y) have a Fair Market Value on the date of surrender equal to the aggregate exercise price of the Shares as to which such Option shall be exercised, (5) authorization for the Company to retain from the total number of Shares as to which the Option is exercised that number of Shares having a Fair Market Value on the date of exercise equal to the exercise price for the total number of Shares as to which the Option is exercised, (6) delivery of a properly executed exercise notice together with such other documentation as the Board and the broker, if applicable, shall require to effect an exercise of the Option and delivery to the

Company of the sale or loan proceeds required to pay the exercise price and any applicable income or employment taxes, (7) delivery of an irrevocable subscription agreement for the Shares that irrevocably obligates the option holder to take and pay for the Shares not more than twelve months after the date of delivery of the subscription agreement, (8) any combination of the foregoing methods of payment, or (9) such other consideration and method of payment for the issuance of Shares to the extent permitted under Applicable Laws. In making its determination as to the type of consideration to accept, the Board shall consider if acceptance of such consideration may be reasonably expected to benefit the Company.

In the case of any deferred payment arrangement, any interest shall be payable at least annually and shall be charged at the minimum rate of interest necessary to avoid the treatment as interest, under any applicable provisions of the Code, of any amounts other than amounts stated to be interest under the deferred payment arrangement.

(f) An option shall not be transferable except by will or by the laws of descent and distribution, and shall be exercisable during the lifetime of the person to whom the option is granted only by such person.

(g) The total number of shares of stock subject to an option may, but need not, be exercisable in periodic installments (which may, but need not, be equal), provided, however, that each option shall become exercisable at the rate of at least twenty (20%) percent per year over five (5) years from the date the option is granted. From time to time during each of such installment periods, the option may be exercised with respect to some or all of the shares allotted to that period, and/or with respect to some or all of the shares allotted to any prior period as to which the option was not fully exercised. During the remainder of the term of the option (if its term extends beyond the end of the installment periods), the option may be exercised from time to time with respect to any shares then remaining subject to the option.

(h) The Company may require any optionee, or any person to whom an option is transferred under subparagraph 5(d), as a condition of exercising any such option: (1) to give written assurances satisfactory to the Company as to the optionee's knowledge and experience in financial and business matters and/or to employ a purchaser representative reasonably satisfactory to the Company who is knowledgeable and experienced in financial and business matters that he or she is capable of evaluating, alone or together with the purchaser representative, the merits and risks of exercising the option; and (2) to give written assurances satisfactory to the Company stating that such person is acquiring the stock subject to the option for such person's own account and not with any present intention of selling or otherwise distributing the stock. These requirements, and any assurances given pursuant to such requirements, shall be inoperative if (i) the issuance of the shares upon the exercise of the option has been registered under a then currently effective registration statement under the Securities Act of 1933, as amended (the "Securities Act"), or (ii), as to any particular requirement, a determination is made by counsel for the Company that such requirement need not be met in the circumstances under the then applicable securities laws.

(i) An option shall terminate three (3) months after termination of the optionee's employment with the Company or an Affiliate, unless (i) the termination of employment of the

optionee is due to such person' s disability, in which case the option may, but need not, provide that it may be exercised at any time within twelve (12) months

following such termination of employment; or (ii) the optionee dies while in the employ of the Company or an Affiliate, or within not more than three (3) months after termination of such employment, in which case the option may, but need not, provide that it may be exercised at any time within eighteen (18) months following the death of the optionee by the person or persons to whom the optionee's rights under such option pass by will or by the laws of descent and distribution; or (iii) the option by its terms specifies either (a) that it shall terminate sooner than three (3) months after termination of the optionee's employment, or (b) that it may be exercised more than three (3) months after termination of the optionee's employment with the Company or an Affiliate. This subparagraph 5(g) shall not be construed to extend the term of any option or to permit anyone to exercise the option after expiration of its term, nor shall it be construed to increase the number of shares as to which any option is exercisable from the amount exercisable on the date of termination of the optionee's employment.

(j) The option may, but need not, include a provision whereby the optionee may elect at any time during the term of his or her employment with the Company or any Affiliate to exercise the option as to any part or all of the shares subject to the option prior to the stated vesting date of the option or of any installment or installments specified in the option. Any shares so purchased from any unvested installment or option may be subject to a repurchase right in favor of the Company or to any other restriction the Board or the Committee determines to be appropriate.

6. COVENANTS OF THE COMPANY

(a) During the terms of the options granted under the Plan, the Company shall keep available at all times the number of shares of stock required to satisfy such options.

(b) The Company shall seek to obtain from each regulatory commission or agency having jurisdiction over the Plan such authority as may be required to issue and sell shares of stock upon exercise of the options granted under the Plan; provided, however, that this undertaking shall not require the Company to register under the Securities Act either the Plan, any option granted under the Plan or any stock issued or issuable pursuant to any such option. If, after reasonable efforts, the Company is unable to obtain from any such regulatory commission or agency the authority which counsel for the Company deems necessary for the lawful issuance and sale of stock under the Plan, the Company shall be relieved from any liability for failure to issue and sell stock upon exercise of such options unless and until such authority is obtained.

7. USE OF PROCEEDS FROM STOCK

Proceeds from the sale of stock pursuant to options granted under the Plan shall constitute general funds of the Company.

8. MISCELLANEOUS

(a) Neither an optionee nor any person to whom an option is transferred under subparagraph 5(f) shall be deemed to be the holder of, or to have any of the rights of a holder with respect to, any shares subject to such option unless and until such person has satisfied all requirements for exercise of the option pursuant to its terms.

(b) Nothing in the Plan or any instrument executed or option granted pursuant thereto shall confer upon any eligible person or optionee any right to continue in the employ of the Company or any Affiliate or shall affect the right of the Company or any Affiliate to terminate the employment of any eligible person or optionee with or without cause.

9. ADJUSTMENTS UPON CHANGES IN STOCK

(a) Changes in Capitalization. Subject to any required action by the shareholders of the Company, the number of shares of stock covered by each outstanding option, and the number of shares of stock that have been authorized for issuance under the Plan but as to which no options have yet been granted or

that have been returned to the Plan upon cancellation or expiration of an option, as well as the price per share of stock covered by each such outstanding option, shall be proportionately adjusted for any increase or decrease in the number of issued shares of stock resulting from a stock split, reverse stock split, stock dividend, combination, recapitalization or reclassification of the Common or any other increase or decrease in the number of issued shares of stock effected without receipt of consideration by the Company; provided, however, that conversion of any convertible securities of the Company shall not be deemed to have been "effected without receipt of consideration." Such adjustment shall be made by the Board, whose determination in that respect shall be final, binding and conclusive. Except as expressly provided herein, no issuance by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number or price of shares of stock subject to an option.

(b) Dissolution or Liquidation. In the event of the proposed dissolution or liquidation of the Company, the Board shall notify the optionee at least fifteen (15) days prior to such proposed action. To the extent it has not been previously exercised, the option will terminate immediately prior to the consummation of such proposed action.

(c) Merger or Sale of Assets. In the event of a proposed sale of all or substantially all of the Company's assets or a merger of the Company with or into another corporation where the successor corporation issues its securities to the Company's shareholders, each outstanding option shall be assumed or an equivalent option shall be substituted by such successor corporation or a parent or subsidiary of such successor corporation, unless the successor corporation does not agree to assume the option or to substitute an equivalent option, in which case such option shall terminate upon the consummation of the merger or sale of assets.

10. AMENDMENT OF THE PLAN

(a) The Board at any time, and from time to time, may amend the Plan. However, except as provided in paragraph 9 relating to adjustments upon changes in stock, no amendment shall be effective unless approved by the shareholders of the Company in the degree and manner required under applicable state and federal law and the rule of any stock exchange upon which the stock is listed within twelve (12) months before or after the adoption of the amendment, where the amendment will:

(i) Increase the number of shares reserved for options under the Plan;

(ii) Materially modify the requirements as to eligibility for participation in the Plan; or

(iii) Materially increase the benefits accruing to participants under the Plan.

(b) Rights and obligations under any option granted before amendment of the Plan shall not be altered or impaired by any amendment of the Plan, except with the consent of the person to whom the option was granted.

11. TERMINATION OR SUSPENSION OF THE PLAN

(a) The Board may suspend or terminate the Plan at any time. Unless sooner terminated, the Plan shall terminate ten (10) years from the date the Plan is adopted by the Board or approved by the stockholders of the Company, whichever is earlier. No options may be granted under the Plan while the Plan is suspended or after it is terminated.

(b) Rights and obligations under any option granted while the Plan is in effect shall not be altered or impaired by suspension or termination of the Plan, except with the consent of the person to whom the option was granted.

12. EFFECTIVE DATE OF PLAN

The Plan shall become effective as determined by the Board, but no options granted under the Plan shall be exercised unless and until the Plan has been approved by the vote or written consent of the holders of a majority of the outstanding shares of the Company entitled to vote, and, if required, an appropriate permit has been issued by the Commissioner of Corporations of the State of California.

13. INFORMATION TO OPTIONEES AND PURCHASERS

The Company shall provide financial statements at least annually to each Optionee during the period such optionee has one or more options outstanding, and in the case of an individual who acquired Shares pursuant to the Plan, during the period such individual owns such Shares. The Company shall not be required to provide such information if the issuance of options under the Plan is limited to key employees whose duties in connection with the Company assure their access to equivalent information.

9

FORM OF GRANT AGREEMENT

IT IS UNLAWFUL TO CONSUMMATE A SALE OR TRANSFER OF THIS SECURITY, OR ANY INTEREST THEREIN, OR TO RECEIVE ANY CONSIDERATION THEREFOR, WITHOUT THE PRIOR WRITTEN CONSENT OF THE COMMISSIONER OF CORPORATIONS OF THE STATE OF CALIFORNIA, EXCEPT AS PERMITTED IN THE COMMISSIONER'S RULES.

SUPPLEMENTAL STOCK OPTION

_____, Optionee:

Synaptics Incorporated (the "Company"), pursuant to its 1986 Supplemental Stock Option Plan (the "Plan") has this day granted to you, the optionee named above, an option to purchase shares of the common stock of the Company ("Common Stock"). This option is not intended to qualify as an "incentive stock option" within the meaning of Section 422A of the Internal Revenue Code of 1986, as amended from time to time (the "Code").

The details of your option are as follows:

1. The total number of shares of Common Stock subject to this option is _____ _____ (_____). Subject to the limitations contained herein, this option shall be exercisable with respect to each installment shown below on or after the date of vesting applicable to such installment, as follows

Number of Shares (Installment)	Date of Earliest Exercise (Vesting)
_____	_____

2. (a) The exercise price of this option is _____ ($_____) per share, being not less than [the fair market value] of the Common Stock on the date of grant of this option.

(b) Payment of the exercise price per share is due in full in cash upon exercise of all or any part of each installment which has become exercisable by you; provided, however, that, if at the time of exercise, the Company's Common Stock is publicly traded and quoted regularly in the Wall Street Journal, payment of the exercise price, to the extent permitted by

applicable statutes and regulations, may be made by delivery of already-owned shares of Common Stock owned by you for at least six (6) months and owned free and clear of any liens, claims, encumbrances or security interests or a combination of cash and already-owned Common Stock. Such Common Stock shall be valued (i) if listed on a national securities exchange or quoted on the NASDAQ National Market System, at the closing price on the trading day immediately preceding the date of exercise or (ii) otherwise at the average of the closing bid and ask quotations published in the Wall Street Journal for the trading day immediately preceding the date of exercise.

3. The minimum number of shares with respect to which this option may be exercised at any one time is _____ (_____), except (a) as to an installment subject to exercise, as set forth in paragraph 1, which amounts to fewer than _____ (_____) shares, in which case, as to the exercise of that installment, the number of such shares in such installment shall be the minimum number of shares, and (b) with respect to the final exercise of this option this paragraph 3 shall not apply.

4. Notwithstanding anything to the contrary contained herein, this option may not be exercised unless the shares issuable upon exercise of this option are then registered under the Securities Act of 1933, as amended (the "Act"), or, if such shares are not then so registered, the Company has determined that such exercise and issuance would be exempt from the registration requirements of the Act.

5. The term of this option commences on the date hereof and, unless sooner terminated as set forth below or in the Plan, terminates on _____, _____ (the "Termination Date"). This option shall terminate prior to the expiration of its term as follows: three (3) months after the termination of your employment with the Company or an affiliate of the Company (as defined in the Plan) for any reason or for no reason unless (a) such termination of employment is due to your permanent and total disability (within the meaning of Section 422A(c)(7) of the Code), in which event the option shall terminate on the earlier of the Termination Date or one (1) year following such termination of employment; (b) such termination of employment is due to your death, in which event the option shall terminate on the earlier of the Termination Date or eighteen (18) months after your death; or (c) during any part of such three (3) month period the option is not exercisable solely because of the condition set forth in paragraph 4 above, in which event the option shall not terminate until the earlier of the Termination Date or until it shall have been exercisable for an aggregate period of three (3) months after the termination of employment; or (d) exercise of the option within three (3) months after termination of your employment with the Company or with an affiliate would result in liability under section 16(b) of the Securities Exchange Act of 1934, in which case the option will terminate on the earlier of (i) the Termination Date, (ii) the tenth (10th) day after the last date upon which exercise would result in such liability or (iii) six (6) months and ten (10) days after the termination of your employment with the Company or an affiliate. However this option may be exercised following termination of employment only as to that number of shares as to which it was exercisable on the date of termination of employment under the provisions of paragraph 1 of this option.

6. This option may be exercised, to the extent specified above, by delivering a notice of exercise together with the exercise price to the Secretary of the Company, or to such other

person as the Company may designate, during regular business hours, together with such additional documents as the Company may then require pursuant to subparagraph 5(f) of the Plan.

7. This option is not transferable, except by will or by the laws of descent and distribution, and is exercisable during your life only by you.

8. This option is not an employment contract and nothing in this option shall be deemed to create in any way whatsoever any obligation on your part to continue in the employ of the Company, or of the Company to continue your employment with the Company.

9. Any notices provided for in this option or the Plan shall be given in writing and shall be deemed effectively given upon receipt or, in the case of notices delivered by the Company to you, five (5) days after deposit in the United States mail, postage prepaid, addressed to you at the address specified

below or at such other address as you hereafter designate by written notice to the Company.

10. This option is subject to all the provisions of the Plan, a copy of which is attached hereto and its provisions are hereby made a part of this option, including without limitation the provisions of paragraph 5 of the Plan relating to option provisions, and is further subject to all interpretations, amendments, rules and regulations which may from time to time be promulgated and adopted pursuant to the Plan. In the event of any conflict between the provisions of this option and those of the Plan, the provisions of the Plan shall control.

Dated the _____ day of _____, 19___.

Very truly yours,

_____

By

_____
Duly authorized on behalf of the
Board of Directors

EXHIBIT 10.3

SYNAPTICS INCORPORATED

1996 STOCK OPTION PLAN
(AS AMENDED THROUGH FEBRUARY 9, 2001)

1. Purposes of the Plan. The purposes of this 1996 Stock Option Plan are to attract and retain the best available personnel for positions of substantial responsibility, to provide additional incentive to Employees and Consultants of the Company and its Subsidiaries and to promote the success of the Company's business. Options granted under the Plan may be incentive stock options (as defined under Section 422 of the Code) or nonstatutory stock options, as determined by the Administrator at the time of grant of an option and subject to the applicable provisions of Section 422 of the Code, as amended, and the regulations promulgated thereunder.

2. Definitions. As used herein, the following definitions shall apply:

(a) "Administrator" means the Board or any of its Committees appointed pursuant to Section 4 of the Plan.

(b) "Board" means the Board of Directors of the Company.

(c) "Code" means the Internal Revenue Code of 1986, as amended.

(d) "Committee" means the Committee appointed by the Board of Directors in accordance with Section 4(a) of the Plan.

(e) "Common Stock" means the Common Stock of the Company.

(f) "Company" means Synaptics Incorporated, a California corporation.

(g) "Consultant" means any person, including an advisor, who is engaged by the Company or any Parent or Subsidiary to render services and is compensated for such services, and any director of the Company whether compensated for such services or not, provided that if and in the event the Company registers any class of any equity security pursuant to the Exchange Act, the term Consultant shall thereafter not include directors who are not compensated for their services or are paid only a director's fee by the Company.

(h) "Continuous Status as an Employee or Consultant" means the absence of any interruption or termination of service as an Employee or Consultant. Continuous Status as an Employee or Consultant shall not be considered interrupted in the case of: (i) sick leave; (ii) military leave; (iii) any other leave of absence approved by the Administrator, provided that such leave is for a period of not more than ninety (90) days, unless reemployment upon the expiration of such leave is guaranteed by contract or statute, or unless provided otherwise pursuant to Company policy adopted from time to time; or (iv) in the case of transfers between locations of the Company or between the Company, its Subsidiaries or their respective successors. For purposes of this Plan, a change in status from an Employee to a Consultant or from a Consultant to an Employee will not constitute an interruption of Continuous Status as an Employee or Consultant.

(i) "Employee" means any person, including officers and directors, employed by the Company or any Parent or Subsidiary of the Company, with the status of employment determined based upon such minimum number of hours or periods worked as shall be determined by the Administrator in its discretion, subject to any requirements of the Code. The payment of a director's fee to a Director shall not be sufficient to constitute "employment" of such Director by the Company.

(j) "Exchange Act" means the Securities Exchange Act of 1934, as amended.

(k) "Fair Market Value" means, as of any date, the fair market value of Common Stock determined as follows:

(i) If the Common Stock is listed on any established

stock exchange or a national market system including without limitation the National Market of the National Association of Securities Dealers, Inc. Automated Quotation ("NASDAQ") System, its Fair Market Value shall be the closing sales price for such stock (or the closing bid, if no sales were reported), as quoted on such system or exchange, or the exchange with the greatest volume of trading in Common Stock for the last market trading day prior to the time of determination, as reported in The Wall Street Journal or such other source as the Administrator deems reliable;

(ii) If the Common Stock is quoted on the NASDAQ System (but not on the National Market thereof) or regularly quoted by a recognized securities dealer but selling prices are not reported, its Fair Market Value shall be the mean between the high bid and low asked prices for the Common Stock for the last market trading day prior to the time of determination, as reported in The Wall Street Journal or such other source as the Administrator deems reliable; or

(iii) In the absence of an established market for the Common Stock, the Fair Market Value thereof shall be determined in good faith by the Administrator.

(l) "Incentive Stock Option" means an Option intended to qualify as an incentive stock option within the meaning of Section 422 of the Code, as designated in the applicable written option agreement.

(m) "Nonstatutory Stock Option" means an Option not intended to qualify as an Incentive Stock Option, as designated in the applicable written option agreement.

(n) "Option" means a stock option granted pursuant to the Plan.

(o) "Optioned Stock" means the Common Stock subject to an Option.

(p) "Optionee" means an Employee or Consultant who receives an Option.

(q) "Parent" means a "parent corporation," whether now or hereafter existing, as defined in Section 424(e) of the Code, or any successor provision.

(r) "Plan" means this 1996 Stock Option Plan.

(s) "Reporting Person" means an officer, director, or greater than ten percent shareholder of the Company within the meaning of Rule 16a-2 under the Exchange Act, who is required to file reports pursuant to Rule 16a-3 under the Exchange Act.

(t) "Rule 16b-3" means Rule 16b-3 promulgated under the Exchange Act, as the same may be amended from time to time, or any successor provision.

(u) "Share" means a share of the Common Stock, as adjusted in accordance with Section 11 of the Plan.

(v) "Stock Exchange" means any stock exchange or consolidated stock price reporting system on which prices for the Common Stock are quoted at any given time.

(w) "Subsidiary" means a "subsidiary corporation," whether now or hereafter existing, as defined in Section 424(f) of the Code, or any successor provision.

3. Stock Subject to the Plan. Subject to the provisions of Section 11 of the Plan, the maximum aggregate number of shares that may be optioned and sold under the Plan is 5,380,918 shares of Common Stock. The shares may be authorized, but unissued, or reacquired Common Stock. If an Option should expire or become unexercisable for any reason without having been exercised in full, the unpurchased Shares that were subject thereto shall, unless the Plan shall have been terminated, become available for future grant under the Plan. In

addition, any shares of Common Stock which are retained by the Company upon exercise of an Option in order to satisfy the exercise or purchase price for such Option or any withholding taxes due with respect to such exercise shall be treated as not issued and shall continue to be available under the Plan. Shares repurchased by the Company pursuant to any repurchase right which the Company may have shall not be available for future grant under the Plan.

4. Administration of the Plan.

(a) Initial Plan Procedure. Prior to the date, if any, upon which the Company becomes subject to the Exchange Act, the Plan shall be administered by the Board or a committee appointed by the Board.

(b) Plan Procedure After the Date, if Any, Upon Which the Company Becomes Subject to the Exchange Act.

(i) Multiple Administrative Bodies. If permitted by Rule 16b-3, grants under the Plan may be made by different bodies with respect to directors, non-director officers and Employees or Consultants who are not Reporting Persons.

(ii) Administration With Respect to Reporting Persons. With respect to grants of Options to Employees who are Reporting Persons, such grants shall be made by (A) the Board if the Board may make grants to Reporting Persons under the Plan in compliance with Rule 16b-3, or (B) a committee designated by the Board to make grants to Reporting Persons under the Plan, which committee shall be constituted in such a manner as to permit grants under the Plan to comply with Rule 16b-3. Once appointed, such committee shall continue to serve in its designated capacity until otherwise directed by the Board. From time to time the Board may

increase the size of the committee and appoint additional members thereof, remove members (with or without cause) and appoint new members in substitution therefor, fill vacancies, however caused, and remove all members of the committee and thereafter directly make grants to Reporting Persons under the Plan, all to the extent permitted by Rule 16b-3.

(iii) Administration with Respect to Consultants and Other Employees. With respect to grants of Options to Employees or Consultants who are not Reporting Persons, the Plan shall be administered by (A) the Board or (B) a committee designated by the Board, which committee shall be constituted in such a manner as to satisfy the legal requirements relating to the administration of incentive stock option plans, if any, of California corporate and securities laws, of the Code and of any applicable Stock Exchange (the "Applicable Laws"). Once appointed, such Committee shall continue to serve in its designated capacity until otherwise directed by the Board. From time to time the Board may increase the size of the Committee and appoint additional members thereof, remove members (with or without cause) and appoint new members in substitution therefor, fill vacancies, however caused, and remove all members of the Committee and thereafter directly administer the Plan, all to the extent permitted by the Applicable Laws.

(c) Powers of the Administrator. Subject to the provisions of the Plan and in the case of a Committee, the specific duties delegated by the Board to such Committee, and subject to the approval of any relevant authorities, including the approval, if required, of any Stock Exchange, the Administrator shall have the authority, in its discretion:

(i) to determine the Fair Market Value of the Common Stock, in accordance with Section 2(k) of the Plan;

(ii) to select the Consultants and Employees to whom Options may from time to time be granted hereunder;

(iii) to determine whether and to what extent Options or any combination thereof are granted hereunder;

(iv) to determine the number of shares of Common Stock to be covered by each such option granted hereunder;

(v) to approve forms of agreement for use under the

Plan;

(vi) to determine the terms and conditions, not inconsistent with the terms of the Plan, of any option granted hereunder;

(vii) to determine whether and under what circumstances an Option may be settled in cash under Section 9(f) instead of Common Stock;

(viii) to reduce the exercise price of any Option to the then current Fair Market Value if the Fair Market Value of the Common Stock covered by such Option shall have declined since the date the Option was granted;

(ix) to construe and interpret the terms of the Plan and Options granted under the Plan; and

(x) in order to fulfill the purposes of the Plan and without mending the Plan, to modify grants of Options to participants who are foreign nationals or employed outside of the United States in order to recognize differences in local law, tax policies or customs.

(d) Effect of Administrator's Decision. All decisions, determinations and interpretations of the Administrator shall be final and binding on all holders of Options.

5. Eligibility.

(a) Recipients of Grants. Nonstatutory Stock Options may be granted to Employees and Consultants. Incentive Stock Options may be granted only to Employees. An Employee or Consultant who has been granted an Option may, if he or she is otherwise eligible, be granted additional Options.

(b) Type of Option. Each Option shall be designated in the written option agreement as either an Incentive Stock Option or a Nonstatutory Stock Option. However, notwithstanding such designations, to the extent that the aggregate Fair Market Value of the Shares with respect to which Options designated as Incentive Stock Options are exercisable for the first time by any Optionee during any calendar year (under all plans of the Company or any Parent or Subsidiary) exceeds $100,000, such excess Options shall be treated as Nonstatutory Stock Options. For purposes of this Section 5(b), Incentive Stock Options shall be taken into account in the order in which they were granted, and the Fair Market Value of the Shares subject to an Incentive Stock Option shall be determined as of the date of the grant of such Option.

(c) Employment Relationship. The Plan shall not confer upon any Optionee any right with respect to continuation of employment or consulting relationship with the Company, nor shall it interfere in any way with such Optionee's right or the Company's right to terminate his or her employment or consulting relationship at any time, with or without cause.

6. Term of Plan. The Plan shall become effective upon the earlier to occur of its adoption by the Board of Directors or its approval by the shareholders of the Company as described in Section 18 of the Plan. It shall continue in effect for a term of ten (10) years unless sooner terminated under Section 14 of the Plan.

7. Term of Option. The term of each Option shall be the term stated in the Option Agreement; provided, however, that the term shall be no more than ten (10) years from the date of grant thereof or such shorter term as may be provided in the Option Agreement. However, in the case of an Incentive Stock Option granted to an Optionee who, at the time the Option is granted, owns stock representing more than ten percent (10%) of the total combined voting power of all classes of stock of the Company or any Parent or Subsidiary, the term of the Option shall be five (5) years from the date of grant thereof or such shorter term as may be provided in the Option Agreement.

8. Option Exercise Price and Consideration.

(a) The per share exercise price for the Shares to be issued pursuant to exercise of an Option shall be such price as is determined by the Board, but shall be subject to the following:

(i) In the case of an Incentive Stock Option that is:

(A) granted to an Employee who, at the time of the grant of such Incentive Stock Option, owns stock representing more than ten percent (10%) of the total combined voting power of all classes of stock of the Company or any Parent or Subsidiary, the per Share exercise price shall be no less than 110% of the Fair Market Value per Share on the date of grant.

(B) granted to any Employee, the per Share exercise price shall be no less than 100% of the Fair Market Value per Share on the date of grant.

(ii) In the case of a Nonstatutory Stock Option that is:

(A) granted to a person who, at the time of the grant of such Option, owns stock representing more than ten percent (10%) of the total combined voting power of all classes of stock of the Company or any Parent or Subsidiary, the per Share exercise price shall be no less than 110% of the Fair Market Value per Share on the date of the grant.

(B) granted to any person, the per Share exercise price shall be no less than 85% of the Fair Market Value per Share on the date of grant.

(b) The consideration to be paid for the Shares to be issued upon exercise of an Option, including the method of payment, shall be determined by the Administrator (and, in the case of an Incentive Stock Option, shall be determined at the time of grant) and may consist entirely of (1) cash, (2) check, (3) promissory note, (4) other Shares that (x) in the case of Shares acquired upon exercise of an Option, have been owned by the Optionee for more than six months on the date of surrender or such other period as may be required to avoid a charge to the Company's earnings, and (y) have a Fair Market Value on the date of surrender equal to the aggregate exercise price of the Shares as to which such Option shall be exercised, (5) authorization for the Company to retain from the total number of Shares as to which the Option is exercised that number of Shares having a Fair Market Value on the date of exercise equal to the exercise price for the total number of Shares as to which the Option is exercised, (6) delivery of a properly executed exercise notice together with such other documentation as the Administrator and the broker, if applicable, shall require to effect an exercise of the Option and delivery to the Company of the sale or loan proceeds required to pay the exercise price and any applicable income or employment taxes, (7) delivery of an irrevocable subscription agreement for the Shares that irrevocably obligates the option holder to take and pay for the Shares not more than twelve months after the date of delivery of the subscription agreement, (8) any combination of the foregoing methods of payment, or (9) such other consideration and method of payment for the issuance of Shares to the extent permitted under Applicable Laws. In making its determination as to the type of consideration to accept, the Administrator shall consider if acceptance of such consideration may be reasonably expected to benefit the Company.

9. Exercise of Option.

(a) Procedure for Exercise; Rights as a Shareholder. Any Option granted hereunder shall be exercisable at such times and under such conditions as determined by the Administrator, including performance criteria with respect to the Company and/or the Optionee, and as shall be permissible under the terms of the Plan; provided that prior to the date upon which the Company becomes subject to the Exchange Act, such Option shall become exercisable at the rate of at least twenty percent (20%) per year over five (5) years from the date the Option is granted and in the event that any of the Shares issued upon exercise of an Option should be subject to a right of repurchase in the Company's favor, such repurchase right shall lapse at the rate of at least twenty, percent (20%) per year over five (5) years from the date the

Option is granted. Notwithstanding the above, in the case of an Option granted to an officer, director or consultant of the Company, the Option may become fully exercisable, and a repurchase right in favor of the Company shall lapse, at any time or during any period established by the Administrator.

An Option may not be exercised for a fraction of a Share.

An Option shall be deemed to be exercised when written notice of such exercise has been given to the Company in accordance with the terms of the Option by the person entitled to exercise the Option and the Company has received full payment for the Shares with respect to which the Option is exercised. Full payment may, as authorized by the Board, consist of any consideration and method of payment allowable under Section 8(b) of the Plan. Until the issuance (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company) of the stock certificate evidencing such Shares, no right to vote or receive dividends or any other rights as a shareholder shall exist with respect to the Optioned Stock, not withstanding the exercise of the option. The Company shall issue (or cause to be issued) such stock certificate promptly upon exercise of the Option. No adjustment will be made for a dividend or other right for which the record date is prior to the date the stock certificate is issued, except as provided in Section 11 of the Plan.

Exercise of an option in any manner shall result in a decrease in the number of Shares that thereafter may be available, both for purposes of the Plan and for sale under the Option, by the number of Shares as to which the Option is exercised.

(b) Termination of Employment or Consulting Relationship. Subject to Section 9(c), in the event of termination of an Optionee's Continuous Status as an Employee or Consultant with the Company, such Optionee may, but only within three (3) months (or such other period of time not less than thirty (30) days as is determined by the Administrator, with such determination in the case of an Incentive Stock Option being made at the time of grant of the Option and not exceeding three (3) months) after the date of such termination (but in no event later than the expiration date of the term of such Option as set forth in the Option Agreement), exercise his or her Option to the extent that the Optionee was entitled to exercise it at the date of such termination. To the extent that Optionee was not entitled to exercise the Option at the date of such termination, or if Optionee does not exercise such Option to the extent so entitled within the time specified herein, the Option shall terminate. No termination shall be

deemed to occur and this Section 9(b) shall not apply if (i) the Optionee is a Consultant who becomes an Employee; or (ii) the Optionee is an Employee who becomes a Consultant.

(c) Disability of Optionee.

(i) Notwithstanding Section 9(b) above, in the event of termination of an Optionee's Continuous Status as an Employee or Consultant as a result of his or her total and permanent disability (within the meaning of Section 22(e)(3) of the Code), Optionee may, but only within twelve (12) months from the date of such termination (but in no event later than the expiration date of the term of such Option as set forth in the Option Agreement), exercise the Option to the extent otherwise entitled to exercise it at the date of such termination. To the extent that Optionee was not entitled to exercise the Option at the date of termination, or if Optionee does not exercise such Option to the extent so entitled within the time specified herein, the Option shall terminate.

(ii) In the event of termination of an Optionee's Continuous Status as an Employee or Consultant as a result of a disability which does not fall within the meaning of total and permanent disability (as set forth in Section 22(e)(3) of the Code), Optionee may, but only within six (6) months from the date of such termination (but in no event later than the expiration date of the term of such Option as set forth in the Option Agreement), exercise the Option to the extent otherwise entitled to exercise it at the date of such termination. However, to the extent that such Optionee fails to exercise an Option which is an Incentive Stock Option ("ISO") (within the meaning of Section 422 of the Code) within three (3) months of the date of such termination, the Option will not qualify for ISO treatment under the Code. To the extent that

Optionee was not entitled to exercise the Option at the date of termination, or if Optionee does not exercise such Option to the extent so entitled within six months (6) from the date of termination, the Option shall terminate.

(d) Death of Optionee. In the event of the death of an Optionee during the period of Continuous Status as an Employee or Consultant since the date of grant of the Option, or within thirty (30) days following termination of Optionee's Continuous Status as an Employee or Consultant, the Option may be exercised, at any time within six (6) months following the date of death (but in no event later than the expiration date of the term of such Option as set forth in the Option Agreement), by Optionee's estate or by a person who acquired the right to exercise the Option by bequest or inheritance, but only to the extent of the right to exercise that had accrued at the date of death or, if earlier, the date of termination of Optionee's Continuous Status as an employee or Consultant. To the extent that Optionee was not entitled to exercise the Option at the date of death or termination, as the case may be, or if Optionee does not exercise such Option to the extent so entitled within the time specified herein, the Option shall terminate.

(e) Rule 16b-3. Options granted to Reporting Persons shall comply with Rule 16b-3 and shall contain such additional conditions or restrictions as may be required thereunder to qualify for the maximum exemption for Plan transactions.

(f) Buyout Provisions. The Administrator may at any time offer to buy out for a payment in cash or Shares, an Option previously granted, based on such terms and conditions

as the Administrator shall establish and communicate to the Optionee at the time that such offer is made.

10. Stock Withholding to Satisfy Withholding Tax Obligations. At the discretion of the Administrator, Optionees may satisfy withholding obligations as provided in this paragraph. When an Optionee incurs tax liability in connection with an Option, which tax liability is subject to tax withholding under applicable tax laws, and the Optionee is obligated to pay the Company an amount required to be withheld under applicable tax laws, the Optionee may satisfy the withholding tax obligation by one or some combination of the following methods: (a) by cash payment, or (b) out of Optionee's current compensation, (c) if pertained by the Administrator, in its discretion, by surrendering to the Company Shares that (i) in the case of Shares previously acquired from the Company, have been owned by the Optionee for more than six months on the date of surrender, and (ii) have a fair market value on the date of surrender equal to or less than Optionee's marginal tax rate times the ordinary income recognized, or (d) by electing to have the Company withhold from the Shares to be issued upon exercise of the Option, if any, that number of Shares having a fair market value equal to the amount required to be withheld. For this purpose, the fair market value of the Shares to be withheld shall be determined on the date that the amount of tax to be withheld is to be determined (the "Tax Date").

Any surrender by a Reporting Person of previously owned Shares to satisfy tax withholding obligations arising upon exercise of this Option must comply with the applicable provisions of Rule 16b-3.

All elections by an Optionee to have Shares withheld to satisfy tax withholding obligations shall be made in writing in a form acceptable to the Administrator and shall be subject to the following restrictions:

(a) the election must be made on or prior to the applicable Tax Date;

(b) once made, the election shall be irrevocable as to the particular Shares of the Option as to which the election is made; and

(c) all elections shall be subject to the consent or disapproval of the Administrator.

In the event the election to have Shares withheld is made by an Optionee and the Tax Date is deferred under Section 83 of the Code because no election is filed under Section 83(b) of the Code, the Optionee shall receive

the full number of Shares with respect to which the Option is exercised but such Optionee shall be unconditionally obligated to tender back to the Company the proper number of Shares on the Tax Date.

11. Adjustments Upon Changes in Capitalization, Merger or Certain Other Transactions.

(a) Changes in Capitalization. Subject to any required action by the shareholders of the Company, the number of shares of Common Stock covered by each outstanding Option, and the number of shares of Common Stock that have been authorized for issuance under the Plan but as to which no Options have yet been granted or that have been

returned to the Plan upon cancellation or expiration of an Option, as well as the price per share of Common Stock covered by each such outstanding Option, shall be proportionately adjusted for any increase or decrease in the number of issued shares of Common Stock resulting from a stock split, reverse stock split, stock dividend, combination, recapitalization or reclassification of the Common Stock, or any other increase or decrease in the number of issued shares of Common Stock effected without receipt of consideration by the Company; provided, however, that conversion of any convertible securities of the Company shall not be deemed to have been "effected without receipt of consideration." Such adjustment shall be made by the Board, whose determination in that respect shall be final, binding and conclusive. Except as expressly provided herein, no issuance by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number or price of shares of Common Stock subject to an Option.

(b) Dissolution or Liquidation. In the event of the proposed dissolution or liquidation of the Company, the Board shall notify the Optionee at least fifteen (15) days prior to such proposed action. To the extent it has not been previously exercised, the Option will terminate immediately prior to the consummation of such proposed action.

(c) Merger or Sale of Assets. In the event of a proposed sale of all or substantially all of the Company's assets or a merger of the Company with or into another corporation where the successor corporation issues its securities to the Company's shareholders, each outstanding Option shall be assumed or an equivalent option or right shall be substituted by such successor corporation or a parent or subsidiary of such successor corporation, unless the successor corporation does not agree to assume the Option or to substitute an equivalent option, in which case such Option shall terminate upon the consummation of the merger or sale of assets.

(d) Certain Distributions. In the event of any distribution to the Company's shareholders of securities of any other entity or other assets (other than dividends payable in cash or stock of the Company) without receipt of consideration by the Company, the Administrator may, in its discretion, appropriately adjust the price per share of Common Stock covered by each outstanding Option to reflect the effect of such distribution.

12. Non-Transferability of Options. Options may not be sold, pledged, assigned, hypothecated, transferred, or disposed of in any manner other than by will or by the laws of descent or distribution and may be exercised or purchased during the lifetime of the Optionee, only by the Optionee.

13. Time of Granting Options. The date of grant of an Option shall, for all purposes, be the date on which the Administrator makes the determination granting such Option, or such other date as is determined by the Board; provided however that in the case of any Incentive Stock Option, the grant date shall be the later of the date on which the Administrator makes the determination granting such Incentive Stock Option or the date of commencement of the Optionee's employment relationship with the Company. Notice of the determination shall be given to each Employee or Consultant to whom an Option is so granted within a reasonable time after the date of such grant.

14. Amendment and Termination of the Plan.

(a) Authority to Amend or Terminate. The Board may at any time amend, alter, suspend or discontinue the Plan, but no amendment, alteration, suspension or discontinuation shall be made that would impair the rights of any Optionee under any grant theretofore made, without his or her consent. In addition, to the extent necessary and desirable to comply with Rule 16b-3 or with Section 422 of the Code (or any other applicable law or regulation, including the requirements of any Stock Exchange), the Company shall obtain shareholder approval of any Plan amendment in such a manner and to such a degree as required.

(b) Effect of Amendment or Termination. No amendment or termination of the Plan shall adversely affect Options already granted, unless mutually agreed otherwise between the Optionee and the Board, which agreement must be in writing and signed by the Optionee and the Company.

15. Conditions Upon Issuance of Shares. Shares shall not be issued pursuant to the exercise of an Option unless the exercise of such Option and the issuance and deliver of such Shares pursuant thereto shall comply with all relevant provisions of law, including, without limitation, the Securities Act of 1933, as amended, the Exchange Act, the rules and regulations promulgated thereunder, and the requirements of any Stock Exchange.

As a condition to the exercise of an Option, the Company may require the person exercising such Option to represent and warrant at the time of any such exercise that the Shares are being purchased only for investment and without any present intention to sell or distribute such Shares if, in the opinion of counsel for the Company, such a representation is required by law.

16. Reservation of Shares. The Company, during the term of this Plan, will at all times reserve and keep available such number of Shares as shall be sufficient to satisfy the requirements of the Plan. The inability of the Company to obtain authority from any regulatory body having jurisdiction, which authority is deemed by the Company's counsel to be necessary to the lawful issuance and sale of any Shares hereunder, shall relieve the Company of any liability in respect of the failure to issue or sell such Shares as to which such requisite authority shall not have been obtained.

17. Agreements. Options shall be evidenced by written agreements in such form as the Administrator shall approve from time to time.

18. Shareholder Approval. Continuance of the Plan shall be subject to approval by the shareholders of the Company within twelve (12) months before or after the date the Plan is adopted. Such shareholder approval shall be obtained in the degree and manner required under applicable state and federal law and the rules of any Stock Exchange upon which the Common Stock is listed. All Options issued under the Plan shall become void in the event such approval is not obtained.

19. Information and Documents to Optionees. The Company shall provide financial statements at least annually to each Optionee during the period such Optionee has one or more Options outstanding, and in the case of an individual who acquired Shares pursuant to the Plan,

during the period such individual owns such Shares. The Company shall not be required to provide such information if the issuance of Options under the Plan is limited to key employees whose duties in connection with the Company assure their access to equivalent information. In addition, at the time of issuance of any securities under the Plan, the Company shall provide to the Optionee a copy of the Plan and a copy of any agreement(s) pursuant to which securities under the Plan are issued.

NOTICE OF STOCK OPTION GRANT

((Optionee)),

You have been granted an option to purchase Common Stock "Common Stock" of Synaptics Incorporated (the "Company") as follows:

Date of Grant:	((GrantDate))
Vesting Commencement Date:	((VestingCommenceDate))
Exercise Price per Share:	$((ExercisePrice))
Total Number of Shares Granted:	((NoofShares))
Total Exercise Price:	$((TotalExercisePrice))
Type of Option:	((ISO)) Incentive Stock Option
	((NSO)) Nonstatutory Stock Option
Term/Expiration Date:	((ExpirDate))
Vesting Schedule:	This Option may be exercised, in whole or in part, in accordance with the following schedule: 25% of the Shares subject to the Option shall vest on the twelve (12) month anniversary of the Vesting Commencement Date and 1/48th of the total number of Shares subject to the Option shall vest on the((MonthVestDate))of each month thereafter.
Termination Period:	This Option may be exercised for 90 days after termination of employment or consulting relationship except as set out in Sections 6 and 7 of the Stock Option Agreement (but in no event later than the Expiration Date).

14

By your signature and the signature of the Company's representative below, you and the Company agree that this Option is granted under and governed by the terms and conditions of the 1996 Stock Option Plan and the Stock Option Agreement, both of which are attached and made a part of this document.

((OPTIONEE)):	SYNAPTICS INCORPORATED
----------	By:----------
Signature	
	Francis Lee, President
----------	----------
Print Name	(Print Name and Title)

15

SYNAPTIC INCORPORATED

1996 STOCK OPTION PLAN

STOCK OPTION AGREEMENT

1. GRANT OF OPTION. Synaptics Incorporated, a California corporation (the "Company"), hereby grants to ((Optionee)) ("Optionee"), an option (the "Option") to purchase a total number of shares of Common Stock (the "Shares") set forth in the Notice of Stock Option Grant, at the exercise price per share set forth in the Notice of Stock Option Grant (the "Exercise Price") subject to the terms, definitions and provisions of the Synaptics Incorporated 1996 Stock Option Plan (the "Plan") adopted by the Company, which is incorporated herein by reference. Unless otherwise defined herein, the terms defined in the Plan shall have the same defined meanings in this Option.

If designated an Incentive Stock Option, this Option is intended to qualify as an Incentive Stock Option as defined in Section 422 of the Code.

2. EXERCISE OF OPTION. This Option shall be exercisable during its Term in accordance with the Vesting Schedule set out in the Notice of Stock Option Grant and with the provisions of Section 9 of the Plan as follows:

(a) RIGHT TO EXERCISE.

(i) This Option may not be exercised for a fraction of a share.

(ii) In the event of Optionee's death, disability or other termination of employment, the exercisability of the Option is governed by Sections 5, 6 and 7 below, subject to the limitation contained in Section 2(a)(i).

(iii) In no event may this Option be exercised after the Expiration Date of this Option as set forth in the Notice of Stock Option Grant.

(b) METHOD OF EXERCISE. This Option shall be exercisable by execution and delivery of the Exercise Notice and Restricted Stock Purchase Agreement attached hereto as Exhibit A (the "Exercise Agreement") or of any other form of written notice approved for such purpose by the Company which shall state the election to exercise the Option, the number of Shares in respect of which the Option is being exercised, and such other representations and agreements as to the holder's investment intent with respect to such shares of Common Stock as may be required by the Company pursuant to the provisions of the Plan. Such written notice shall be signed by Optionee and shall be delivered in person or by certified mail to the Secretary of the Company. The written notice shall be accompanied by payment of the Exercise Price. This Option shall be deemed to be exercised upon receipt by the Company of such written notice accompanied by the Exercise Price.

No Shares will be issued pursuant to the exercise of an Option unless such issuance and such exercise shall comply with all relevant provisions of applicable law and the requirements of any stock exchange upon which the Shares may then be listed. Assuming such compliance, for income tax purposes the Shares shall be considered transferred to Optionee on the date on which the Option is exercised with respect to such Shares.

3. METHOD OF PAYMENT. Payment of the Exercise Price shall be by any of the following, or a combination thereof, at the election of Optionee:

(a) cash;

(b) check;

(c) surrender of other shares of Common Stock of the Company which (i) in the case of Shares acquired pursuant to the exercise of a Company option, have been owned by Optionee for more than six months on the date of surrender, and (ii) have a Fair Market Value on the date of surrender equal to the Exercise Price of the Shares as to which the Option is being exercised;

(d) if there is a public market for the Shares and they are registered under the Exchange Act, delivery of a properly executed exercise notice together with irrevocable instructions to a broker to deliver promptly to the Company the amount of sale or loan proceeds required to pay the Exercise Price; or

(e) a promissory note.

4. RESTRICTIONS ON EXERCISE. This Option may not be exercised until such time as the Plan has been approved by the shareholders of the Company, or if the issuance of such Shares upon such exercise or the method of payment of consideration for such shares would constitute a violation of any applicable federal or state securities or other law or regulation, including any rule under Part 207 of Title 12 of the Code of Federal Regulations as promulgated by the Federal Reserve Board. As a condition to the exercise of this Option, the Company may require Optionee to make any representation and warranty to the Company as may be required by any applicable law or regulation.

5. TERMINATION OF RELATIONSHIP. In the event of termination of Optionee's Continuous Status as an Employee or Consultant, Optionee may, to the extent otherwise so entitled at the date of such termination (the "Termination Date"), exercise this Option during the Termination Period set forth in the Notice of Stock Option Grant. To the extent that Optionee was not entitled to exercise this Option at such Termination Date, or if Optionee does not exercise this Option within the Termination Period, the Option shall terminate.

6. DISABILITY OF OPTIONEE.

(a) Notwithstanding the provisions of Section 5 above, in the event of termination of Optionee's Continuous Status as an Employee or Consultant as a result of

Optionee's total and permanent disability (as defined in Section 22(e)(3) of the Code), Optionee may, but only within twelve months from the Termination Date (but in no event later than the Expiration Date set forth in the Notice of Stock Option Grant), exercise this Option to the extent Optionee was entitled to exercise it as of such Termination Date. To the extent that Optionee was not entitled to exercise the Option as of the Termination Date, or if Optionee does not exercise such Option (to the extent so entitled) within the time specified in this Section 6(a), the Option shall terminate.

(b) Notwithstanding the provisions of Section 5 above, in the event of termination of Optionee's consulting relationship or Continuous Status as an Employee as a result of disability not constituting a total and permanent disability (as set forth in Section 22(e)(3) of the Code), Optionee may, but only within six months from the Termination Date (but in no event later than the Expiration Date set forth in the Notice of Stock Option Grant), exercise the Option to the extent Optionee was entitled to exercise it as of such Termination Date; provided, however, that if this is an Incentive Stock Option and Optionee fails to exercise this Incentive Stock Option within three months from the Termination Date, this Option will cease to qualify as an Incentive Stock Option (as defined in Section 422 of the Code) and Optionee will be treated for federal income tax purposes as having received ordinary income at the time of such exercise in an amount generally measured by the difference between the Exercise Price for the Shares and the Fair Market Value of the Shares on the date of exercise. To the extent that Optionee was not entitled to exercise the Option at the Termination Date, or if Optionee does not exercise such Option to the extent so entitled within the time specified in this Section 6(b), the Option shall terminate.

7. DEATH OF OPTIONEE. In the event of the death of Optionee (a) during the Term of this Option and while an Employee or Consultant of the Company and having been in Continuous Status as an Employee or Consultant since the date of grant of the Option, or (b) within 30 days after Optionee's Termination Date, the Option may be exercised at any time within six months following the date of death (but in no event later than the Expiration Date set forth in the Notice of Stock Option Grant), by Optionee's estate or by a person who acquired the right to exercise the Option by bequest or inheritance, but only to the extent of the right to exercise that had accrued at the Termination Date.

8. NON-TRANSFERABILITY OF OPTION. This Option may not be transferred in any manner otherwise than by will or by the laws of descent or distribution and may be exercised during the lifetime of Optionee only by him or her. The terms of this Option shall be binding upon the executors, administrators, heirs, successors and assigns of Optionee.

9. TERM OF OPTION. This Option may be exercised only within the Term set forth in the Notice of Stock Option Grant, subject to the limitations set forth in Section 7 of the Plan.

10. TAX CONSEQUENCES. Set forth below is a brief summary as of the date of this Option of certain of the federal and California tax consequences of exercise of this Option and disposition of the Shares under the laws in effect as of the Date of Grant. THIS SUMMARY IS NECESSARILY INCOMPLETE, AND THE TAX LAWS AND REGULATIONS ARE

SUBJECT TO CHANGE. OPTIONEE SHOULD CONSULT A TAX ADVISER BEFORE EXERCISING THIS OPTION OR DISPOSING OF THE SHARES.

(a) EXERCISE OF INCENTIVE STOCK OPTION. If this Option qualifies as an Incentive Stock Option, there will be no regular federal or California income tax liability upon the exercise of the Option, although the excess, if any, of the Fair Market Value of the Shares on the date of exercise over the Exercise Price will be treated as an adjustment to the alternative

minimum tax for federal tax purposes and may subject Optionee to the alternative minimum tax in the year of exercise.

(b) EXERCISE OF NONSTATUTORY STOCK OPTION. If this Option does not qualify as an Incentive Stock Option, there may be a regular federal income tax liability and a California income tax liability upon the exercise of the Option. Optionee will be treated as having received compensation income (taxable at ordinary income tax rates) equal to the excess, if any, of the Fair Market Value of the Shares on the date of exercise over the Exercise Price. If Optionee is an employee, the Company will be required to withhold from Optionee's compensation or collect from Optionee and pay to the applicable taxing authorities an amount equal to a percentage of this compensation income at the time of exercise.

(c) DISPOSITION OF SHARES. In the case of a Nonstatutory Stock Option, if Shares are held for at least one year, any gain realized on disposition of the Shares will be treated as long-term capital gain for federal and California income tax purposes. In the case of an Incentive Stock Option, if Shares transferred pursuant to the Option are held for at least one year after exercise and are disposed of at least two years after the Date of Grant, any gain realized on disposition of the Shares will also be treated as long-term capital gain for federal and California income tax purposes. In either case, the long-term capital gain will be taxed for federal income tax and alternative minimum tax purposes at a maximum rate of 28% if the Shares are held more than one year but less than 18 months after exercise and at 20% if the Shares are held more than 18 months after exercise. If Shares purchased under an Incentive Stock Option are disposed of within one year after exercise or within two years after the Date of Grant, any gain realized on such disposition will be treated as compensation income (taxable at ordinary income rates) to the extent of the difference between the Exercise Price and the lesser of (i) the Fair Market Value of the Shares on the date of exercise, or (ii) the sale price of the Shares.

(d) NOTICE OF DISQUALIFYING DISPOSITION OF INCENTIVE STOCK OPTION SHARES. If the Option granted to Optionee herein is an Incentive Stock Option, and if Optionee sells or otherwise disposes of any of the Shares acquired pursuant to the Incentive Stock Option on or before the later of (i) the date two years after the Date of Grant, or (ii) the date one year after the date of exercise, Optionee shall immediately notify the Company in writing of such disposition. Optionee acknowledges and agrees that he or she may be subject to income tax withholding by the Company on the compensation income recognized by Optionee from the early disposition by payment in cash or out of the current earnings paid to Optionee.

11. WITHHOLDING TAX OBLIGATIONS. Optionee understands that, upon exercising a Nonstatutory Stock Option, he or she will recognize income for tax purposes in an amount equal

to the excess of the then Fair Market Value of the Shares over the Exercise Price. However, the timing of this income recognition may be deferred for up to six months if Optionee is subject to Section 16 of the Exchange Act. If Optionee is an employee, the Company will be required to withhold from Optionee's compensation, or collect from Optionee and pay to the applicable taxing authorities an amount equal to a percentage of this compensation income. Additionally, Optionee may at some point be required to satisfy tax withholding obligations with respect to the disqualifying disposition of an Incentive Stock Option. Optionee shall satisfy his or her tax withholding obligation arising upon the exercise of this Option by one or some combination of the following methods: (a) by cash payment, (b) out of Optionee's current compensation, (c) if permitted by the Administrator, in its discretion, by surrendering to the Company Shares which (i) in the case of Shares previously acquired from the Company, have been owned by Optionee for more than six months on the date of surrender, and (ii) have a Fair Market Value on the date of surrender equal to or greater than Optionee's marginal tax rate times the ordinary income recognized, or (d) by electing to have the Company withhold from the Shares to be issued upon exercise of the Option that number of Shares having a Fair Market Value equal to the amount required to be withheld. For this purpose, the Fair Market Value of the Shares to be withheld shall be determined on the date that the amount of tax to be withheld is to be determined (the "Tax Date").

If Optionee is subject to Section 16 of the Exchange Act (an

"Insider"), any surrender of previously owned Shares to satisfy tax withholding obligations arising upon exercise of this Option must comply with the applicable provisions of Rule 16b-3 promulgated under the Exchange Act ("Rule 16b-3").

All elections by Optionee to have Shares withheld to satisfy tax withholding obligations shall be made in writing in a form acceptable to the Administrator and shall be subject to the following restrictions:

(a) the election must be made on or prior to the applicable Tax Date;

(b) once made, the election shall be irrevocable as to the particular Shares of the Option as to which the election is made; and

(c) all elections shall be subject to the consent or disapproval of the Administrator.

12. MARKET STANDOFF AGREEMENT. In connection with the initial public offering of the Company's securities and upon request of the Company or the underwriters managing such underwritten offering of the Company's securities, Optionee agrees not to sell, make any short sale of, loan, grant any option for the purchase of, or otherwise dispose of any securities of the Company (other than those included in the registration) without the prior written consent of the Company or such underwriters, as the case may be, for such period of time (not to exceed 180 days) from the effective date of such registration as may be requested by the Company or such managing underwriters and to execute an agreement reflecting the foregoing as may be requested by the underwriters at the time of the Company's initial public offering.

[Signature Page Follows]

This Agreement may be executed in two or more counterparts, each of which shall be deemed an original and all of which together shall constitute one document.

SYNAPTICS INCORPORATED

By:

Francis Lee, President

(Print name and title)

OPTIONEE ACKNOWLEDGES AND AGREES THAT THE VESTING OF SHARES PURSUANT TO THE OPTION HEREOF IS EARNED ONLY BY CONTINUING EMPLOYMENT OR CONSULTANCY AT THE WILL OF THE COMPANY (NOT THROUGH THE ACT OF BEING HIRED, BEING GRANTED THIS OPTION OR ACQUIRING SHARES HEREUNDER). OPTIONEE FURTHER ACKNOWLEDGES AND AGREES THAT NOTHING IN THIS AGREEMENT, NOR IN THE COMPANY'S STOCK OPTION PLAN WHICH IS INCORPORATED HEREIN BY REFERENCE, SHALL CONFER UPON OPTIONEE ANY RIGHT WITH RESPECT TO CONTINUATION OF EMPLOYMENT OR CONSULTANCY BY THE COMPANY, NOR SHALL IT INTERFERE IN ANY WAY WITH OPTIONEE'S RIGHT OR THE COMPANY'S RIGHT TO TERMINATE OPTIONEE'S EMPLOYMENT OR CONSULTANCY AT ANY TIME, WITH OR WITHOUT CAUSE.

Optionee acknowledges receipt of a copy of the Plan and represents that he or she is familiar with the terms and provisions thereof, and hereby accepts this Option subject to all of the terms and provisions thereof. Optionee has reviewed the Plan and this Option in their entirety, has had an opportunity to obtain the advice of counsel prior to executing this Option and fully understands all provisions of the Option. Optionee hereby agrees to accept as binding, conclusive and final all decisions or interpretations of the Administrator upon any questions arising under the Plan or this Option.

Dated:

((Optionee))

EXHIBIT 10.4

Adopted: 20 September 2000
Approved: 10 November 2000

SYNAPTICS INCORPORATED

2000 UK APPROVED SUB-PLAN TO THE
SYNAPTICS INCORPORATED 1996 STOCK OPTION PLAN

In pursuance of its powers under the Synaptics Incorporated 1996 Stock Option Plan ("the Plan"), the Board of Directors, or a duly appointed committee of the Board of Directors of Synaptics Incorporated ("the Company") has adopted these rules for the purposes of operating the Plan with regard to such options which these rules are expressed to extend at the time when the option is granted. Unless the context requires otherwise, all expressions used in these rules have the same meaning as the Plan. The Plan, as supplemented by these rules, is referred to hereinafter as "the Sub-Plan". For the avoidance of doubt, the terms of the Plan (insofar as they have not been disapplied by Rule 14 of these rules) shall form part of the Sub-Plan.

1. The shares of Common Stock over which options may be granted under the Sub-Plan form part of the ordinary share capital (as defined in section 832(1) Income and Corporation Taxes Act 1988) (ICTA 1988) of the Company and must at all times, including the time of grant and the time of exercise, comply with the terms of the Plan and comply with the requirements of paragraphs 10 - 14 Schedule 9 ICTA 1988.

2. The companies participating in this Sub-Plan are the Company and all companies controlled by the Company within the meaning of Section 840 ICTA 1988 ("the Subsidiaries") and which have been nominated by the Company to participate for the time being in this Sub-Plan.

3. The shares of Common Stock to be acquired on exercise of the option in accordance with the terms of the Sub-Plan will:

   (a) be fully paid up;

   (b) be not redeemable;

   (c) not be subject to any restrictions other than restrictions which attach to all shares of stock of the same class. For the purpose of this clause, the term restrictions includes restrictions which are deemed to attach to the shares under any contract, agreement, arrangement or condition as referred to in paragraph 13 Schedule 9 ICTA 1988.

4. Synaptics Incorporated has only one class of shares of Common Stock, and only the Common Stock is ordinary share capital as defined under section 832(1) ICTA 1988.

5. No option will be granted to an employee or director under this Sub-Plan, or where an option has previously been granted no option shall be exercised by an option-holder if at that time he has, or any time within the preceding 12 months has had, a material interest for the purposes of Schedule 9 ICTA 1988 in either the Company being a close

company (within the meaning of Chapter I of Part XI of ICTA 1988) or in a company being a close company which has control (within the meaning of section 840 ICTA 1988) of the Company or in a company being a close company and a member of a consortium (as defined in section 187(7) ICTA 1988) which owns the Company. In determining whether a company is a close company for this purpose section 414(1)(a) ICTA 1988 (exclusion of companies not resident in the United Kingdom) and section 415 of ICTA 1988 (exclusion of certain companies with listed shares) shall be disregarded.

6. Notwithstanding the provisions of Section 8 of the Plan, no option will be granted to an employee or director under this Sub-Plan in relation to which the exercise price is manifestly less than the market value (as defined in section 187(2) ICTA 1988) of the Company's shares of

Common Stock on the date of grant of the option mad the exercise price shall be stated at the date of the option grant. The market value is to be agreed in accordance with the provisions of Part VIII of the Taxation of Chargeable Gains Act 1992 and agreed for the purposes of the Scheme with the Inland Revenue Shares Valuation Division at the date of grant.

7. (a) Notwithstanding the provisions of Section 14 of the Plan, any alteration or amendment to the Plan or this Sub-Plan which affects the Sub-Plan shall not have effect until approved by the Board of Inland Revenue. The Company undertakes to provide details thereof to the Board of Inland Revenue without delay for this purpose.

(b) Notwithstanding the provisions of Section 11 no adjustment pursuant to any of the provisions of the Plan shall be made to any option which has been granted under the Sub-Plan unless such adjustment would be permitted under the Plan and under the provisions of paragraph 29 of Schedule 9 ICTA 1988 and is necessary to take account of any variation in the share capital of which the Common Stock forms part and where so permitted no such adjustment shall take effect until the approval of the Board of Inland Revenue shall have been obtained thereto.

8. Notwithstanding anything contained in Section 11 of the Plan, if the Company merges or is consolidated with another company under circumstances where the Company is not the surviving company, no options may be granted under this Sub-Plan following such merger, or consolidation.

9. For the avoidance of doubt it is stated that the Company is the grantor as defined in paragraph 1(1) Schedule 9 ICTA 1988.

10. Any option granted to an employee or director under this Sub-Plan shall be limited to take effect so that immediately following such grant the aggregate market value (determined at the time prescribed by paragraph 28 Schedule 9 ICTA 1988 and calculated in accordance with the provisions of the said Schedule 9) of shares which he can acquire under this Sub-Plan and any other plan or plans, not being a savings-related share option scheme, approved under the said Schedule 9 and established by the grantor or by any associated company (as defined in section 416 ICTA 1988) of the grantor (and not exercised) shall not exceed L30,000 or such other sum as may be prescribed from time to

time by paragraph 28 Schedule 9 ICTA 1988. Provided always that this limit shall not exceed the limitations set out in the Plan.

11. An option will only be granted under this Sub-Plan to any employee (other than one who is a director) or a full-time director of the Company or a company participating in this Sub-Plan. For this purpose, a full-time director is one who is required to work at least 25 hours a week excluding meal-times in the business of the Company or its subsidiaries.

12. The Company shall not later than 30 days upon actual receipt of the written notice of exercise of an option given in accordance with the provisions of the Plan together with the payment of the aggregate exercise price in respect of the shares of Common Stock to be issued pursuant to the exercise of an option, allot and issue credited as fully paid to the Optionee and cause to be registered in his name the number of shares of Common Stock specified in the written notice.

13. When the Board under the powers conferred by Section 4(c)(vi) of the Plan determines the terms and conditions of any option granted under this Sub-Plan, such terms and conditions shall:

(i) be objective, specified at the time of grant and set out in full in or details given with the award; and

(ii) be such that rights to exercise such options after the

fulfillment or attainment of any terms and conditions so specified shall not be dependent upon the further discretion of any person; and

(iii) not be capable of amendment, variation or waiver unless an event occurs which causes the Committee to consider that a waived, varied or amended term and condition would be a fairer measure of performance and would be no more difficult to satisfy.

14.1 The following wording in Section 10 shall be deleted and shall therefore be disregarded for the purposes of the Sub-Plan. "At the discretion of the Administrator, Optionees may satisfy withholding obligations as provided in this paragraph. When an Optionee incurs tax liability in applicable tax laws, and the Optionee is obligated to pay the Company an amount required to be withheld under applicable tax laws, the Optionee may satisfy the withholding tax obligation by one or some combination of the following methods: (a) by cash payment, or (b) out of Optionee's current compensation, (c) if permitted by the Administrator, in its discretion, by surrendering to the Company Shares that (i) in the case of Shares previously acquired from the Company, have been owned by the Optionee for more than six months on the date of surrender, and (ii) have a fair market value on the date of surrender equal to or less than Optionee's marginal tax rates times the ordinary income recognized, or (d) by electing to have the Company withhold from the Shares to be issued upon exercise of the Option, if any, that number of Shares having a fair market value equal to the amount required to be withheld. For this purpose, the fair market value

of the Shares to be withheld shall be determined on the date that the amount of tax to be withheld is to be determined (the "Tax Date").

14.2 The above wording is replaced with the following for the purposes of the Sub-Plan:

"The Optionee is obligated to satisfy the withholding obligations as provided in this paragraph. When an Optionee incurs tax liability in connection with an Option, which tax liability is subject to tax withholding under applicable tax laws, the Optionee will satisfy the withholding tax obligation by one or some combination of the following methods: (a) by cash payment, or (b) out of Optionee's current compensation.

15. The following, namely:

(a) all references in the Plan to "Incentive Stock Options;

(b) all payment forms in Section 8(b) other than cash, cheque or delivery of a properly executed exercise notice together with such other documentation as the Administrator and the broker, if applicable, shall require to effect an exercise of the Option and delivery to the Company of the sale or loan proceeds required to pay the exercise price and any applicable income or employment taxes;

(c) Section 4 (c)(vii) allowing options to be settled in cash;

(d) Section 4 (c)(viii) allowing the amendment of the exercise price;

(e) Section 4 (c)(x) allowing discretion to modify granted options;

(f) Section 9(f) providing for Buyout Provisions;

shall be deleted and shall therefore be disregarded for the purposes of the Sub-Plan.

16. The first sentence of Section 5(a) shall be amended to read as follows:

"Nonstatutory Stock Options may be granted to Employees."

17. Section 8 (a)(ii)(B) shall be amended to read as follows:

"granted to any person, the per Share exercise price shall be no less than the market value per Share on the date of grant as agreed in advance with the Inland Revenue in accordance with Rule 6 of the Sub-Plan."

Adopted on behalf of the Company by: /s/ Francis Lee

Position of signatory: CEO

Date: Nov 10, 2000

5

APPENDIX IV

SYNAPTICS INCORPORATED

STOCK OPTION AGREEMENT

2000 UK APPROVED SUB-PLAN
to the
SYNAPTICS INCORPORATED 1996 STOCK OPTION PLAN

You are granted effective as of ....., options (the "Options") to purchase shares of common stock, zero par value, of Synaptics Incorporated (the "Option Shares") pursuant to the Synaptics Incorporated 1996 Stock Option Plan (the "Plan") of Synaptics Incorporated (the "Company") as amended by the 2000 UK Approved Sub-Plan referred to hereinafter as the "Sub-Plan". The Options are subject to the terms and conditions set forth below and in the Sub-Plan rules, which are attached to and made a part of this Stock Option Agreement (the "Agreement"). Capitalised terms used in the Agreement have the same meaning as defined in the Sub-Plan.

1 Exercise Price: $ ..... per Option Share, being the market value of the stock at the date of the grant.

(a) Number of Option Shares: .....

(b) Exercise: Options may be exercised at 25% on the twelve (12) month anniversary of the Vesting Commencement Date (as specified below) and 1/48th of the total number of Option Shares on each monthly anniversary thereafter, except in circumstances as defined in the Plan.

(c) Vesting Commencement Date .....

2 Exercise of Option: Exercise must be made by delivery to the Company at its principal executive office of a notice signed by the Optionee that states the number of shares to be purchased and is accompanied by payment of the Exercise Price for the shares to be purchased in substantially the form attached hereto as Exhibit B.

3 Registration under Federal and State Securities Laws: These Options may not be exercised and the Company is not required to deliver shares of Common Stock unless such shares have been registered under Federal and applicable state security laws, or are then exempt from such registration requirements.

6

4 Transferability of Options: These Options are not transferable except that on the death of the Optionee, the Option may be transferred to the Optionee's legal representative and exercised within six months from the date of death.

5 Market Standoff Agreement: In the event of an initial public offering of the Company's shares and upon the request of the Company (or the underwriters

managing such underwritten offering of the Company's shares), you are obliged not to sell, make any short sale of, loan, grant any option for the purchase of, or otherwise dispose of any shares of the Company (other than those included in the registration) without the prior written consent of the Company or such underwriters, as the case may be, for such period of time (not to exceed 180 days) from the effective date of such registration as may be requested by the Company (or such managing underwriters) and to execute an agreement reflecting the foregoing as may be requested by the underwriters at the time of the Company's initial public offer.

6 Expiration Date: The Options expire 90 days after termination of employment except if the Optionee terminates employment by reason of death or total and permanent disability, when the Option expires six months and twelve months (six months in the event of a disability that is not total and permanent) respectively after termination of employment. Subject to earlier termination as provided in this Agreement, the Options expire on the tenth anniversary of the date of grant, unless earlier exercised.

7 Taxation: No income tax will be payable when you exercise the Option provided the Sub-Plan is still approved by the Inland Revenue and:-

(a) at least three years and no more than ten years have elapsed from the Option Grant Date; and

(b) at least three years have elapsed since the date on which you last exercised an option obtained under an approved scheme (except a savings-related scheme) for which income tax relief was given.

The Company by its duly-authorised officer agrees to the Terms and Conditions of the Agreement and of the Sub-Plan.

SYNAPTICS INCORPORATED

By:

7

The Optionee accepts the Option subject to the terms and conditions of the Sub-Plan and this Agreement.

Optionee

8

APPENDIX V

EXHIBIT B

SYNAPTICS INCORPORATED

STOCK OPTION EXERCISE FORM

2000 UK APPROVED SUB-PLAN
to the
SYNAPTICS INCORPORATED 1996 STOCK OPTION PLAN

Corporate Secretary
Synaptics Incorporated
[Head Office Address]

Dear

I hereby exercise [ ] of my options dated [ ] (the "Shares"), having an exercise price of $[ ] per share. Attached hereto is a cheque in payment of the exercise price in the amount of $[ ].

I acknowledge and agree that I shall be required to comply with the attached schedule detailing the relevant US securities laws for private companies. I further acknowledge and agree that these are not specific restrictions to employee shareholders and apply to all shares in the Company.

Thank you for your assistance.

Yours sincerely,

[Purchaser]

9

US SECURITIES LAWS

1 MARKET STANDOFF AGREEMENT

In connection with the initial public offering of the Company's securities and upon request of the Company or the underwriters managing such underwritten offering of the Company's securities, Purchaser agrees not to sell, make any short sale of, loan, grant any option for the purchase of, or otherwise dispose of any securities of the Company (other than those included in the registration) without the prior written consent of the Company or such underwriters, as the case may be, for such period of time (not to exceed 180 days) from the effective date of such registration as may be requested by the Company or such managing underwriters and to execute an agreement reflecting the foregoing as may be requested by the underwriters at the time of the Company's initial public offering.

2 INVESTMENT AND TAXATION REPRESENTATIONS

In connection with the purchase of the Shares, Purchaser represents to the Company the following:

(a) Purchaser is aware of the Company's business affairs and financial condition and has acquired sufficient information about the Company to reach an informed and knowledgeable decision to acquire the Shares. Purchaser is purchasing the Shares for investment for his or her own account only and not with a view to, or for resale in connection with, any "distribution" thereof within the meaning of the Securities Act of 1933 (the "Securities Act").

(b) Purchaser understands that the Shares have not been registered under the Securities Act by reason of a specific exemption therefrom, which exemptions depends upon, among other things, the bona fide nature of Purchaser's investment intent as expressed herein.

(c) Purchaser understands that the Shares are "restricted securities" under applicable US federal and state securities laws and that, pursuant to these laws, Purchaser must hold the Shares indefinitely unless they are registered with the Securities and Exchange Commission and qualified by state authorities, or an exemption from such registration and qualification requirements is available. Purchaser acknowledges that the Company has no obligation to register or qualify the Shares for resale. Purchaser further acknowledges that if an exemption from registration or qualification is available, it may be conditioned on various requirements including, but not limited to, the time and manner of sale, the holding period for the Shares, and requirements relating to the Company which

10

are outside of the Purchaser's control, and which the Company

is under no obligation and may not be able to satisfy.

(d) Purchaser understands that Purchaser may suffer adverse tax consequences as a result of Purchaser's purchase or disposition of the Shares. Purchaser represents that Purchaser has consulted any tax consultants Purchaser deems advisable in connection with the purchase or disposition of the Shares and that Purchaser is not relying on the Company for any tax advice.

3 RESTRICTIVE LEGENDS AND STOP-TRANSFER ORDERS

(a) LEGENDS The certificate or certificates representing the Shares shall bear the following legends (as well as any legends required by applicable state and federal corporate and securities laws):

(i) The shares represented by this certificate have not been registered under the Securities Act of 1933, and have been acquired for investment and not with a view to, or in connection with, the sale or distribution thereof. No such sale or distribution may be effected without an effective registration statement related thereto or an opinion of counsel in a form satisfactory to the company that such registration is not required under the Securities Act of 1933.

(ii) The shares represented by this certificate may be transferred only in accordance with the terms of tm agreement between the company and the shareholder, a copy of which is on file with the Secretary of the company.

(b) STOP-TRANSFER NOTICES Purchaser agrees that, in order to ensure compliance with the restrictions referred to herein, the Company may issue appropriate "stop transfer" instructions to its transfer agent, if any, and that, if the Company transfers its own securities, it may make appropriate notations to the same effect in its own records.

(c) REFUSAL TO TRANSFER The Company shall not be required (i) to transfer on its books any Shares that have been sold or otherwise transferred in violation of any of the provisions of this Agreement or (ii) to treat as owner of such Shares or to accord the right to vote or pay dividends to any purchaser or other transferee to whom such Shares shall have been so transferred.

(d) REMOVAL OF LEGEND The Shares then held by Purchaser will no longer be subject to the legend referred to in Section 3(a)(ii) following the expiration or termination of the market standoff provisions of Section 1 (and of any agreement entered pursuant to Section 1). After such time, and upon Purchaser's request, a new certificate or certificates representing the Shares not repurchased shall be

issued without the legend referred to in Section 3(a)(ii), and delivered to Purchaser.

4 NO EMPLOYMENT RIGHTS

Nothing in this Agreement shall affect in may manner whatsoever the right or power of the Company, or a Parent or Subsidiary of the Company, to terminate Purchaser's employment or consulting relationship, for any reason, with or without cause.

EXHIBIT 10.5

SYNAPTICS INCORPORATED

2000 NONSTATUTORY STOCK OPTION PLAN

1. PURPOSES OF THE PLAN. The purposes of this Nonstatutory Stock Option Plan are to attract and retain the best available personnel for positions of substantial responsibility, to provide additional incentive to the Employees and Consultants of the Company and its Subsidiaries and to promote the success of the Company's business. Options granted hereunder shall be Nonstatutory Stock Options.

2. DEFINITIONS. As used herein, the following definitions shall apply:

(a) "ADMINISTRATOR" means the Board or any of its Committees appointed pursuant to Section 4 of the Plan.

(b) "APPLICABLE LAWS" means the legal requirements relating to the administration of stock option plans under applicable U.S. state corporate laws, U.S. federal and applicable state securities laws, the Code, any Stock Exchange rules and regulations and the applicable laws of any other country or jurisdiction where Options are granted under the Plan, as such laws, rules, regulations and requirements shall be in place from time to time.

(c) "BOARD" means the Board of Directors of the Company.

(d) "CODE" means the Internal Revenue Code of 1986, as amended.

(e) "COMMITTEE" means the Committee appointed by the Board of Directors in accordance with paragraph (a) of Section 4 of the Plan, if one is appointed.

(f) "COMMON STOCK" means the Common Stock of the Company.

(g) "COMPANY" means Synaptics Incorporated, a California corporation.

(h) "CONSULTANT" means any person who is engaged by the Company or any Parent or Subsidiary to render consulting services and is compensated for such consulting services, provided that a Director of the Company shall not be treated as a Consultant for purposes of the Plan.

(i) "CONTINUOUS SERVICE STATUS" means the absence of any interruption or termination of service as an Employee or Consultant to the Company or a Parent or Subsidiary. Continuous Service Status shall not be considered interrupted in the case of: (i) sick leave; (ii) military leave; (iii) any other leave of absence approved by the Administrator, provided that such leave is for a period of not more than 90 days, unless reemployment upon the expiration of such leave is guaranteed by contract or statute, or unless provided otherwise pursuant to Company policy adopted from time to time; or (iv) in the case of transfers between locations of the Company or between the Company, its Parent, or any Subsidiariey or their respective

successors. Unless otherwise determined by the Administrator, a change in status from an Employee to a Consultant or from a Consultant to an Employee will not constitute an interruption of Continuous Service Status.

(j) "DIRECTOR" means a member of the Board.

(k) "EMPLOYEE" means any person who is employed by the Company or any Parent or Subsidiary of the Company, with the status of employment determined based upon such minimum number of hours or periods worked as shall be determined by the Administrator in its discretion, subject to any requirements of the Code. The payment of a director's fee to a Director shall not be sufficient to constitute "employment" of such Director by the Company.

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

(m) "FAIR MARKET VALUE" means, as of any date, the value of Common Stock determined as follows:

(i) If the Common Stock is listed on any established stock exchange or a national market system including without limitation the National Market of the National Association of Securities Dealers, Inc. Automated Quotation ("Nasdaq") System, its Fair Market Value shall be the closing sales price for such stock (or the closing bid, if no sales were reported), as quoted on such system or exchange, or the exchange with the greatest volume of trading in Common Stock for the last market trading day prior to the time of determination, as reported in The Wall Street Journal or such other source as the Administrator deems reliable;

(ii) If the Common Stock is quoted on the Nasdaq System (but not on the National Market thereof) or regularly quoted by a recognized securities dealer but selling prices are not reported, its Fair Market Value shall be the mean between the bid and asked prices for the Common Stock for the last market trading day prior to the time of determination, as reported in The Wall Street Journal or such other source as the Administrator deems reliable; or

(iii) In the absence of an established market for the Common Stock, the Fair Market Value thereof shall be determined in good faith by the Administrator.

(n) "NONSTATUTORY STOCK OPTION" means an Option not intended to qualify as an Incentive Stock Option, as designated in the applicable option agreement. "Incentive Stock Option" means an Option intended to qualify as an incentive stock option within the meaning of Section 422 of the Code, as designated in the applicable option agreement.

(o) "OPTION" means a stock option granted pursuant to the Plan.

(p) "OPTION AGREEMENT" means a written document, the form(s) of which shall be approved from time to time by the Administrator, reflecting the terms of an Option granted under the Plan and includes any documents attached to or incorporated into such Option Agreement, including, but not limited to, a notice of stock option grant and a form of exercise notice.

(q) "OPTIONED STOCK" means the Common Stock subject to an Option.

(r) "OPTIONEE" means an Employee or Consultant who receives an Option.

(s) "PARENT" means a "parent corporation," whether now or hereafter existing, as defined in Section 424(e) of the Code, or any successor provision.

(t) "PLAN" means this 2000 Nonstatutory Stock Option Plan.

(u) "RULE 16b-3" means Rule 16b-3 promulgated under the Exchange Act as the same may be amended from time to time, or any successor provision.

(v) "SHARE" means a share of the Common Stock, as adjusted in accordance with Section 11 of the Plan.

(w) "SUBSIDIARY" means a "subsidiary corporation," whether now or hereafter existing, as defined in Section 424(f) of the Code, or any successor provision.

3. STOCK SUBJECT TO THE PLAN. Subject to the provisions of Section 11 of the Plan, the maximum aggregate number of shares which may be optioned and sold under the Plan is 100,000 shares of Common Stock. The Shares may be authorized, but unissued, or reacquired Common Stock.

If an Option should expire or become unexercisable for any reason without having been exercised in full, the unpurchased Shares which were subject thereto shall, unless the Plan shall have been terminated, become available for

future grant under the Plan. Shares issued under the Plan and later repurchased by the Company shall become available for future grant or sale under the Plan.

4. ADMINISTRATION OF THE PLAN.

(a) COMPOSITION OF ADMINISTRATOR. The Plan shall be administered by (A) the Board or (B) a Committee designated by the Board, which Committee shall be constituted in such a manner as to satisfy the Applicable Laws. If a Committee has been appointed pursuant to this Section 4(a), such Committee shall continue to serve in its designated capacity until otherwise directed by the Board. From time to time the Board may increase the size of any Committee and appoint additional members thereof, remove members (with or without cause) and appoint new members in substitution therefor, fill vacancies (however caused) and remove all members of a Committee and thereafter directly administer the Plan, all to the extent permitted by the Applicable Laws.

(b) POWERS OF THE ADMINISTRATOR. Subject to the provisions of the Plan, and in the case of a Committee, the specific duties delegated by, or limitations of authority imposed by, the Board to or on such Committee, the Administrator shall have the authority, in its discretion:

(i) to grant Options under the Plan;

(ii) to determine, upon review of relevant information and in accordance with Section 2(m) of the Plan, the Fair Market Value of the Common Stock;

(iii) to determine the exercise price per share of Options to be granted, which exercise price shall be determined in accordance with Section 8(a) of the Plan;

(iv) to determine the Employees or Consultants to whom, and the time or times at which, Options shall be granted and the number of shares to be represented by each Option;

(v) to interpret the Plan;

(vi) to approve forms of agreement for use under the Plan;

(vii) to determine the terms and provisions of each Option granted (which need not be identical) and, with the consent of the holder thereof, modify or amend each Option;

(viii) to accelerate or defer (with the consent of the Optionee) the exercise date of any Option;

(ix) to authorize any person to execute on behalf of the Company any instrument required to effectuate the grant of an Option previously granted by the Administrator; and

(x) to make all other determinations deemed necessary or advisable for the administration of the Plan.

(c) EFFECT OF ADMINISTRATOR'S DECISION. All decisions, determinations and interpretations of the Administrator shall be final and binding on all Optionees and any other holders of any Options granted under the Plan.

5. ELIGIBILITY.

(a) RECIPIENTS OF GRANTS. Options may be granted only to Employees and Consultants. An Employee or Consultant who has been granted an Option may, if he is otherwise eligible, be granted an additional Option or Options.

(b) TYPE OF OPTION. Each Option shall be designated in the Option Agreement as a Nonstatutory Stock Option.

(c) AT-WILL RELATIONSHIP. The Plan shall not confer upon any Optionee any right with respect to continuation of employment or consulting relationship with the Company, nor shall it interfere in any way with his right

or the Company's right to terminate his employment or consulting relationship at any time, with or without cause.

6. TERM OF PLAN. The Plan shall become effective upon its adoption by the Board of Directors. It shall continue in effect for a term of ten (10) years unless sooner terminated under Section 14 of the Plan.

7. TERM OF OPTION. The term of each Option shall be ten (10) years from the date of grant thereof or such shorter term as may be provided in the Option Agreement.

8. EXERCISE PRICE AND CONSIDERATION.

(a) The per Share exercise price for the Shares to be issued pursuant to exercise of an Option shall be such price as is determined by the Administrator.

(b) The consideration to be paid for the Shares to be issued upon exercise of an Option, including the method of payment, shall be determined by the Administrator and may consist entirely of (1) cash, (2) check, (3) promissory note, (4) other Shares of Common Stock which (i) either have been owned by the Optionee for more than six (6) months on the date of surrender or were not acquired, directly or indirectly, from the Company, and (ii) have a Fair Market Value on the date of surrender equal to the aggregate exercise price of the Shares as to which said Option shall be exercised, (5) delivery of a properly executed exercise notice together with irrevocable instructions to a broker to deliver promptly to the Company the amount of sale or loan proceeds required to pay the exercise price, (6) any combination of such methods of payment, or (7) such other consideration and method of payment for the issuance of Shares to the extent permitted under the Applicable Laws. In making its determination as to the type of consideration to accept, the Administrator shall consider if acceptance of such consideration may be reasonably expected to benefit the Company.

9. EXERCISE OF OPTION.

(a) PROCEDURE FOR EXERCISE; RIGHTS AS A SHAREHOLDER. Any Option granted hereunder shall be exercisable at such times and under such conditions as determined by the Administrator, consistent with the terms of the Plan and reflected in the Option Agreement, including vesting requirements and/or performance criteria with respect to the Company and/or the Optionee. In the event that any of the Shares issued upon exercise of an Option should be subject to a right of repurchase in the Company's favor, such repurchase right shall lapse at the rate as determined by the Administrator.

An Option may not be exercised for a fraction of a Share.

An Option shall be deemed to be exercised when written notice of such exercise has been given to the Company in accordance with the terms of the Option by the person entitled to exercise the Option and full payment for the Shares with respect to which the Option is exercised has been received by the Company. Full payment may, as authorized by the Administrator, consist of any consideration and method of payment allowable under Section 8(b) of the Plan. Until the issuance (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company) of the stock certificate evidencing such Shares, no right to vote or receive dividends or any other rights as a shareholder

shall exist with respect to the Optioned Stock, notwithstanding the exercise of the Option. The Company shall issue (or cause to be issued) such stock certificate promptly upon exercise of the Option. No adjustment will be made for a dividend or other right for which the record date is prior to the date the stock certificate is issued, except as provided in Section 11 of the Plan.

Exercise of an Option in any manner shall result in a decrease in the number of Shares which thereafter may be available, both for purposes of

the Plan and for sale under the Option, by the number of Shares as to which the Option is exercised.

(b) TERMINATION OF EMPLOYMENT OR CONSULTING RELATIONSHIP. In the event of termination of an Optionee's Continuous Service Status with the Company, such Optionee may, but only within three (3) months (or such other period of time, not less than 30 days, as is determined by the Administrator) after the date of such termination (but in no event later than the date of expiration of the term of such Option as set forth in the Option Agreement), exercise his Option to the extent that he was entitled to exercise it at the date of such termination. To the extent that the Optionee was not entitled to exercise the Option at the date of such termination, or if the Optionee does not exercise the Option to the extent so entitled within the time specified above, the Option shall terminate and the Optioned Stock underlying the unexercised portion of the Option shall revert to the Plan. Unless otherwise determined by the Administrator, no termination shall be deemed to occur and this Section 9(b) shall not apply if (i) the Optionee is a Consultant who becomes an Employee, or (ii) the Optionee is an Employee who becomes a Consultant.

(c) DISABILITY OF OPTIONEE.

(i) Notwithstanding Section 9(b) above, in the event of termination of an Optionee's Continuous Service Status as a result of his or her total and permanent disability (within the meaning of Section 22(e)(3) of the Code), such Optionee may, but only within twelve months from the date of such termination (but in no event later than the expiration date of the term of such Option as set forth in the Option Agreement), exercise the Option to the extent otherwise entitled to exercise it at the date of such termination. To the extent that the Optionee was not entitled to exercise the Option at the date of termination, or if the Optionee does not exercise such Option to the extent so entitled within the time specified herein, the Option shall terminate.

(ii) In the event of termination of an Optionee's Continuous Service Status as a result of a disability which does not fall within the meaning of total and permanent disability (as set forth in Section 22(e)(3) of the Code), such Optionee may, but only within six months from the date of such termination (but in no event later than the expiration date of the term of such Option as set forth in the Option Agreement), exercise the Option to the extent otherwise entitled to exercise it at the date of such termination. To the extent that the Optionee was not entitled to exercise the Option at the date of termination, or if the Optionee does not exercise such Option to the extent so entitled within six months from the date of termination, the Option shall terminate.

(d) DEATH OF OPTIONEE. In the event of the death of an Optionee during the period of Continuous Service Status since the date of grant of the Option, or within 30 days following termination of the Optionee's Continuous Service Status, the Option may be exercised, at any time within six months following the date of death (but in no event later than the expiration date of the term of such Option as set forth in the Option Agreement), by such Optionee's estate or by a person who acquired the right to exercise the Option by bequest or inheritance, but only to the extent of the right to exercise that had accrued at the date of death or, if earlier, the date of termination of the Optionee's Continuous Service Status. To the extent that the Optionee was not entitled to exercise the Option at the date of death or termination, as the case may be, or if the Optionee does not exercise such Option to the extent so entitled within the time specified above, the Option shall terminate.

10. TAXES.

(a) As a condition of the exercise of an Option granted under the Plan, the Optionee (or in the case of the Optionee's death, the person exercising the Option) shall make such arrangements as the Administrator may require for the satisfaction of any applicable federal, state, local or foreign withholding tax obligations that may arise in connection with the exercise of an Option and the issuance of Shares. The Company shall not be required to issue any Shares under the Plan until such obligations are satisfied.

(b) In the case of an Employee and in the absence of any other arrangement, the Employee shall be deemed to have directed the Company to withhold or collect from his or her compensation an amount sufficient to satisfy

such tax obligations from the next payroll payment otherwise payable after the date of an exercise of the Option.

(c) In the case of a Optionee other than an Employee (or in the case of an Employee where the next payroll payment is not sufficient to satisfy such tax obligations, with respect to any remaining tax obligations), in the absence of any other arrangement and to the extent permitted under the Applicable Laws, the Optionee shall be deemed to have elected to have the Company withhold from the Shares to be issued upon exercise of the Option that number of Shares having a Fair Market Value determined as of the applicable Tax Date (as defined below) equal to the minimum statutory amount required to be withheld. For purposes of this Section 10, the Fair Market Value of the Shares to be withheld shall be determined on the date that the amount of tax to be withheld is to be determined under the Applicable Laws (the "Tax Date").

(d) If permitted by the Administrator, in its discretion, a Optionee may satisfy his or her tax withholding obligations upon exercise of an Option by surrendering to the Company Shares that (i) in the case of Shares previously acquired from the Company, have been owned by the Optionee for more than six months on the date of surrender, and (ii) have a Fair Market Value determined as of the applicable Tax Date equal to the minimum statutory amount required to be withheld.

(e) Any election or deemed election by a Optionee to have Shares withheld to satisfy tax withholding obligations under Section 10(c) or (d) above shall be irrevocable as to the

particular Shares as to which the election is made and shall be subject to the consent or disapproval of the Administrator. Any election by an Optionee under Section 10(d) above must be made on or prior to the applicable Tax Date.

(f) In the event an election to have Shares withheld is made by a Optionee and the Tax Date is deferred under Section 83 of the Code because no election is filed under Section 83(b) of the Code, the Optionee shall receive the full number of Shares with respect to which the Option is exercised but such Optionee shall be unconditionally obligated to tender back to the Company the proper number of Shares on the Tax Date.

11. ADJUSTMENTS UPON CHANGES IN CAPITALIZATION, CORPORATE TRANSACTION AND OTHER TRANSACTION.

(a) ADJUSTMENTS. Subject to any required action by the shareholders of the Company, the number of shares of Common Stock covered by each outstanding Option, and the number of shares of Common Stock which have been authorized for issuance under the Plan but as to which no Options have yet been granted or which have been returned to the Plan upon cancellation or expiration of an Option, and the price per share of Common Stock covered by each such outstanding Option, shall be proportionately adjusted for any increase or decrease in the number of issued shares of Common Stock resulting from a stock split, reverse stock split, stock dividend, combination, recapitalization or reclassification of the Common Stock, or any other increase or decrease in the number of issued shares of Common Stock effected without receipt of consideration by the Company; provided, however, that conversion of any convertible securities of the Company shall not be deemed to have been "effected without receipt of consideration." Such adjustment shall be made by the Administrator, whose determination in that respect shall be final, binding and conclusive. Except as expressly provided herein, no issuance by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number or price of shares of Common Stock subject to an Option.

(b) DISSOLUTION OR LIQUIDATION. In the event of the dissolution or liquidation of the Company, the Administrator shall notify the Optionee at least fifteen (15) days prior to such proposed action. To the extent it has not been previously exercised, the Option will terminate immediately prior to the consummation of such proposed action.

(c) MERGER OR SALE OF ASSETS. In the event of a proposed sale of all or substantially all of the Company's assets or a merger of the Company with or into another corporation where the successor corporation issues its securities to the Company's shareholders (a "Corporate Transaction"), each

outstanding Option shall be assumed or an equivalent option or right shall be substituted by such successor corporation or a parent or subsidiary of such successor corporation, unless the successor corporation does not agree to assume the outstanding Options or substitute equivalent options, in which case the outstanding Options shall terminate upon the consummation of the transaction.

For purposes of this Section 11(c), an Option shall be considered assumed, without limitation, if, at the time of issuance of the stock or other consideration upon a Corporate

Transaction, each Optionee would be entitled to receive upon exercise of an Option the same number and kind of shares of stock or the same amount of property, cash or securities as the Optionee would have been entitled to receive upon the occurrence of such transaction if the Optionee had been, immediately prior to the transaction, the holder of the number of Shares of Common Stock covered by the Option at such time (after giving effect to any adjustments in the number of Shares covered by the Option as provided for in this Section 11); provided however that if such consideration received in the transaction is not solely common stock of the successor corporation or its Parent, the Administrator may, with the consent of the successor corporation, provide for the consideration to be received upon exercise of the Option to be solely common stock of the successor corporation or its Parent equal to the Fair Market Value of the per Share consideration received by holders of Common Stock in the transaction.

(d) CERTAIN DISTRIBUTIONS. In the event of any distribution to the Company's shareholders of securities of any other entity or other assets (other than dividends payable in cash or stock of the Company) without receipt of consideration by the Company, the Administrator may, in its discretion, appropriately adjust the price per Share of Common Stock covered by each outstanding Option to reflect the effect of such distribution.

12. NON-TRANSFERABILITY OF OPTIONS. Options may not be sold, pledged, assigned, hypothecated, transferred, or disposed of in any manner other than by will or by the laws of descent or distribution and may be exercised or purchased during the lifetime of the Optionee only by the Optionee.

13. TIME OF GRANTING OPTIONS. The date of grant of an Option shall, for all purposes, be the date on which the Administrator makes the determination granting such Option. Notice of the determination shall be given to each Employee or Consultant to whom an Option is so granted within a reasonable time after the date of such grant.

14. AMENDMENT AND TERMINATION OF THE PLAN.

(a) AMENDMENT AND TERMINATION. The Board may amend or terminate the Plan from time to time in such respects as the Board may deem advisable

(b) EFFECT OF AMENDMENT OR TERMINATION. Any such amendment or termination of the Plan shall not adversely affect Options already granted (except to the extent contemplated by such Options) and such Options shall remain in full force and effect, unless mutually agreed otherwise between the Optionee and the Board (or other body then administering the Plan), which agreement must be in writing and signed by the Optionee and the Company.

15. CONDITIONS UPON ISSUANCE OF SHARES. Shares shall not be issued pursuant to the exercise of an Option unless the exercise of such Option and the issuance and delivery of such Shares pursuant thereto shall comply with the Applicable Laws, and shall be further subject to the approval of counsel for the Company with respect to such compliance.

As a condition to the exercise of an Option, the Company may require the person exercising such Option to represent and warrant at the time of any such exercise that the Shares are being purchased only for investment and without any present intention to sell or distribute such Shares if, in the opinion of counsel for the Company, such a representation is required by any of

the aforementioned relevant provisions of law.

16. RESERVATION OF SHARES. The Company, during the term of this Plan, will at all times reserve and keep available such number of Shares as shall be sufficient to satisfy the requirements of the Plan. The inability of the Company to obtain authority from any regulatory body having jurisdiction, which authority is deemed by the Company's counsel to be necessary to the lawful issuance and sale of any Shares hereunder, shall relieve the Company of any liability in respect of the failure to issue or sell such Shares as to which such requisite authority shall not have been obtained.

17. OPTION AGREEMENTS. Options shall be evidenced by Option Agreements in such forms as the Administrator shall from time to time approve.

18. INFORMATION TO OPTIONEES. If required by the Applicable Laws, the Company shall provide financial statements at least annually to each Optionee during the period such Optionee has one or more Options outstanding, and in the case of an individual who acquired Shares pursuant to the Plan, during the period such individual owns such Shares. The Company shall not be required to provide such information if the issuance of Options under the Plan is limited to key employees whose duties in connection with the Company assure their access to equivalent information. In addition, at the time of issuance of any securities under the Plan, the Company shall provide to the Optionee a copy of the Plan and any agreement(s) pursuant to which securities granted under the Plan are issued.

11

SYNAPTICS INCORPORATED

2000 NONSTATUTORY STOCK OPTION PLAN

NOTICE OF STOCK OPTION GRANT

((Optionee))

You have been granted a nonstatutory stock option to purchase Common Stock "Common Stock" of Synaptics Incorporated (the "Company") as follows:

Board Approval Date:	((BoardApprovalDate))
Date of Grant (Later of Board Approval Date or Commencement of Employment/Consulting):	((GrantDate))
Vesting Commencement Date:	((VestingCommenceDate))
Type of Option:	Nonstatutory Stock Option
Exercise Price per Share:	$((ExercisePrice))
Total Number of Shares Granted:	((NoofShares))
Total Exercise Price:	$((TotalExercisePrice))
Term/Expiration Date:	((ExpirDate))
Vesting Schedule:	This Option may be exercised, in whole or in part, in accordance with the following schedule: 25% of the Shares subject to the Option shall vest on the twelve (12) month anniversary of the Vesting Commencement Date and 1/48th of the total number of Shares subject to the Option shall vest on the ((MonthVestDate))of each month thereafter.
Termination	Period: This Option may be exercised for 90 days after termination of employment or consulting relationship except as set out in Sections 5 and 6 of the Stock Option Agreement (but in no event later than the Expiration Date).

12

By your signature and the signature of the Company's representative below, you and the Company agree that this Option is granted under and governed by the terms and conditions of the 2000 Nonstatutory Stock Option Plan and the Stock Option Agreement, both of which are attached and made a part of this

document.

((OPTIONEE)): SYNAPTICS INCORPORATED

By:

_____ _____
Signature

Francis Lee, President & CEO

_____
Print Name

SYNAPTIC INCORPORATED

2000 NONSTATUTORY STOCK OPTION PLAN

STOCK OPTION AGREEMENT

1. GRANT OF OPTION. Synaptics Incorporated, a California corporation (the "Company"), hereby grants to ((Optionee)) ("Optionee"), a nonstatutory stock option (the "Option") to purchase a total number of shares of Common Stock (the "Shares") set forth in the Notice of Stock Option Grant, at the exercise price per share set forth in the Notice of Stock Option Grant (the "Exercise Price") subject to the terms, definitions and provisions of the Synaptics Incorporated 2000 Nonstatutory Stock Option Plan (the "Plan") adopted by the Company, which is incorporated herein by reference. Unless otherwise defined herein, the terms defined in the Plan shall have the same defined meanings in this Option.

2. EXERCISE OF OPTION. This Option shall be exercisable during its Term in accordance with the Vesting Schedule set out in the Notice of Stock Option Grant and with the provisions of Section 9 of the Plan as follows:

(a) RIGHT TO EXERCISE.

(i) This Option may not be exercised for a fraction of a share.

(ii) In the event of Optionee's death, disability or other termination of employment, the exercisability of the Option is governed by Sections 4, 5 and 6 below, subject to the limitation contained in Section 2(a)(i).

(iii) In no event may this Option be exercised after the Expiration Date of this Option as set forth in the Notice of Stock Option Grant.

(b) METHOD OF EXERCISE. This Option shall be exercisable by execution and delivery of the Exercise Notice and Restricted Stock Purchase Agreement attached hereto as Exhibit A (the "Exercise Agreement") or of any other form of written notice approved for such purpose by the Company which shall state the election to exercise the Option, the number of Shares in respect of which the Option is being exercised, and such other representations and agreements as to the holder's investment intent with respect to such shares of Common Stock as may be required by the Company pursuant to the provisions of the Plan. Such written notice shall be signed by Optionee and shall be delivered in person or by certified mail to the Secretary of the Company. The written notice shall be accompanied by payment of the Exercise Price. This Option shall be deemed to be exercised upon receipt by the Company of such written notice accompanied by the Exercise Price.

No Shares will be issued pursuant to the exercise of an Option unless such issuance and such exercise shall comply with all relevant provisions of applicable law and the requirements of any stock exchange upon which the Shares may then be listed. Assuming such compliance, for income tax purposes the Shares shall be considered transferred to Optionee on the date on which the Option is exercised with respect to such Shares.

3. METHOD OF PAYMENT. Payment of the Exercise Price shall be by any of the following, or a combination thereof, at the election of Optionee:

(a) cash;

(b) check;

(c) surrender of other shares of Common Stock of the Company which (i) in the case of Shares acquired pursuant to the exercise of a Company option, have been owned by Optionee for more than six months on the date of surrender, and (ii) have a Fair Market Value on the date of surrender equal to the Exercise Price of the Shares as to which the Option is being exercised; or

(d) if there is a public market for the Shares and they are registered under the Exchange Act, delivery of a properly executed exercise notice together with irrevocable instructions to a broker to deliver promptly to the Company the amount of sale or loan proceeds required to pay the Exercise Price.

4. TERMINATION OF RELATIONSHIP. In the event of termination of Optionee's Continuous Status as an Employee or Consultant, Optionee may, to the extent otherwise so entitled at the date of such termination (the "Termination Date"), exercise this Option during the Termination Period set forth in the Notice of Stock Option Grant. To the extent that Optionee was not entitled to exercise this Option at such Termination Date, or if Optionee does not exercise this Option within the Termination Period, the Option shall terminate.

5. DISABILITY OF OPTIONEE.

(a) Notwithstanding the provisions of Section 4 above, in the event of termination of Optionee's Continuous Status as an Employee or Consultant as a result of Optionee's total and permanent disability (as defined in Section 22(e)(3) of the Code), Optionee may, but only within twelve months from the Termination Date (but in no event later than the Expiration Date set forth in the Notice of Stock Option Grant), exercise this Option to the extent Optionee was entitled to exercise it as of such Termination Date. To the extent that Optionee was not entitled to exercise the Option as of the Termination Date, or if Optionee does not exercise such Option (to the extent so entitled) within the time specified in this Section 5(a), the Option shall terminate.

(b) Notwithstanding the provisions of Section 4 above, in the event of termination of Optionee's consulting relationship or Continuous Status as an Employee as a result of disability not constituting a total and permanent disability (as set forth in Section 22(e)(3) of the Code), Optionee may, but only within six months from the Termination Date (but in no event later than the Expiration Date set forth in the Notice of Stock Option Grant), exercise the Option to the extent Optionee was entitled to exercise it as of such Termination Date. To the extent that Optionee was not entitled to exercise the Option at the Termination Date, or if Optionee does not exercise such Option to the extent so entitled within the time specified in this Section 5(b), the Option shall terminate.

6. DEATH OF OPTIONEE. In the event of the death of Optionee (a) during the Term of this Option and while an Employee or Consultant of the Company and having been in Continuous Status as an Employee or Consultant since the date of grant of the Option, or (b) within 30 days after Optionee's Termination Date, the Option may be exercised at any time within six months following the date of death (but in no event later than the Expiration Date set forth in the Notice of Stock Option Grant), by Optionee's estate or by a person who acquired the right to exercise the Option by bequest or inheritance, but only to the extent of the right to exercise that had accrued at the Termination Date.

7. NON-TRANSFERABILITY OF OPTION. This Option may not be transferred in any manner otherwise than by will or by the laws of descent or distribution and may be exercised during the lifetime of Optionee only by him or her. The terms of this Option shall be binding upon the executors, administrators, heirs, successors and assigns of Optionee.

8. TERM OF OPTION. This Option may be exercised only within the Term set forth in the Notice of Stock Option Grant, subject to the limitations set forth in Section 7 of the Plan.

9. TAX CONSEQUENCES. Set forth below is a brief summary as of the date of this Option of certain of the federal and California tax consequences of

exercise of this Option and disposition of the Shares under the laws in effect as of the Date of Grant. THIS SUMMARY IS NECESSARILY INCOMPLETE, AND THE TAX LAWS AND REGULATIONS ARE SUBJECT TO CHANGE. OPTIONEE SHOULD CONSULT A TAX ADVISER BEFORE EXERCISING THIS OPTION OR DISPOSING OF THE SHARES.

There may be a regular federal (and state) income tax liability upon the exercise of the Option. Optionee will be treated as having received compensation income (taxable at ordinary income tax rates) equal to the excess, if any, of the fair market value of the Shares on the date of exercise over the Exercise Price. If Optionee is an Employee, the Company will be required to withhold from Optionee's compensation or collect from Optionee and pay to the applicable taxing authorities an amount equal to a percentage of this compensation income at the time of exercise. If Shares issued upon exercise of a Nonstatutory Stock

Option are held for at least more than one year, any gain realized on disposition of the Shares will be treated as long-term capital gain for federal income tax purposes.

10. WITHHOLDING TAX OBLIGATIONS. Optionee understands that, upon exercising a Nonstatutory Stock Option, he or she will recognize income for tax purposes in an amount equal to the excess of the then Fair Market Value of the Shares over the Exercise Price. If Optionee is an employee, the Company will be required to withhold from Optionee's compensation, or collect from Optionee and pay to the applicable taxing authorities an amount equal to a percentage of this compensation income. Optionee shall satisfy his or her tax withholding obligation arising upon the exercise of this Option by one or some combination of the following methods: (a) by cash payment, (b) out of Optionee's current compensation, (c) if permitted by the Administrator, in its discretion, by surrendering to the Company Shares which (i) in the case of Shares previously acquired from the Company, have been owned by Optionee for more than six months on the date of surrender, and (ii) have a Fair Market Value on the date of surrender equal to the minimum statutory amount required to be withheld, or (d) by electing to have the Company withhold from the Shares to be issued upon exercise of the Option that number of Shares having a Fair Market Value equal to the minimum statutory amount required to be withheld. For this purpose, the Fair Market Value of the Shares to be withheld shall be determined on the date that the amount of tax to be withheld is to be determined (the "Tax Date").

If Optionee is subject to Section 16 of the Exchange Act (an "Insider"), any surrender of previously owned Shares to satisfy tax withholding obligations arising upon exercise of this Option must comply with the applicable provisions of Rule 16b-3 promulgated under the Exchange Act ("Rule 16b-3").

All elections by Optionee to have Shares withheld to satisfy tax withholding obligations shall be made in writing in a form acceptable to the Administrator and shall be subject to the following restrictions:

(a) the election must be made on or prior to the applicable Tax Date;

(b) once made, the election shall be irrevocable as to the particular Shares of the Option as to which the election is made; and

(c) all elections shall be subject to the consent or disapproval of the Administrator.

11. MARKET STANDOFF AGREEMENT. In connection with the initial public offering of the Company's securities and upon request of the Company or the underwriters managing such underwritten offering of the Company's securities, Optionee agrees not to sell, make any short sale of, loan, grant any option for the purchase of, or otherwise dispose of any securities of the Company (other than those included in the registration) without the prior written consent of the Company or such underwriters, as the case may be, for such period of time

(not to exceed 180 days) from the effective date of such registration as may be requested by the Company or such managing underwriters and to execute an

agreement reflecting the foregoing as may be requested by the underwriters at the time of the Company's initial public offering.

This Agreement may be executed in two or more counterparts, each of which shall be deemed an original and all of which together shall constitute one document.

SYNAPTICS INCORPORATED

By: _____

Francis Lee, President & CEO

OPTIONEE ACKNOWLEDGES AND AGREES THAT THE VESTING OF SHARES PURSUANT TO THE OPTION HEREOF IS EARNED ONLY BY CONTINUING EMPLOYMENT OR CONSULTANCY AT THE WILL OF THE COMPANY (NOT THROUGH THE ACT OF BEING HIRED, BEING GRANTED THIS OPTION OR ACQUIRING SHARES HEREUNDER). OPTIONEE FURTHER ACKNOWLEDGES AND AGREES THAT NOTHING IN THIS AGREEMENT, NOR IN THE COMPANY'S STOCK OPTION PLAN WHICH IS INCORPORATED HEREIN BY REFERENCE, SHALL CONFER UPON OPTIONEE ANY RIGHT WITH RESPECT TO CONTINUATION OF EMPLOYMENT OR CONSULTANCY BY THE COMPANY, NOR SHALL IT INTERFERE IN ANY WAY WITH OPTIONEE'S RIGHT OR THE COMPANY'S RIGHT TO TERMINATE OPTIONEE'S EMPLOYMENT OR CONSULTANCY AT ANY TIME, WITH OR WITHOUT CAUSE.

Optionee acknowledges receipt of a copy of the Plan and represents that he or she is familiar with the terms and provisions thereof, and hereby accepts this Option subject to all of the terms and provisions thereof. Optionee has reviewed the Plan and this Option in their entirety, has had an opportunity to obtain the advice of counsel prior to executing this Option and fully understands all provisions of the Option. Optionee hereby agrees to accept as binding, conclusive and final all decisions or interpretations of the Administrator upon any questions arising under the Plan or this Option.

Dated: _____ _____
((Optionee))

EXHIBIT A

SYNAPTICS INCORPORATED

2000 NONSTATUTORY STOCK OPTION PLAN

EXERCISE NOTICE AND RESTRICTED STOCK PURCHASE AGREEMENT

This Agreement ("Agreement") is made as of _____, by and between Synaptics Incorporated, a California corporation (the "Company"), and ((Optionee)) ("Purchaser"). To the extent any capitalized terms used in this Agreement are not defined, they shall have the meaning ascribed to them in the 2000 Nonstatutory Stock Option Plan.

1. EXERCISE OF OPTION. Subject to the terms and conditions hereof, Purchaser hereby elects to exercise his or her option to purchase _____ shares of the Common Stock (the "Shares") of the Company under and pursuant to the Company's 2000 Nonstatutory Stock Option Plan (the "Plan") and the Stock Option Agreement granted ((GrantDate)), (the "Option Agreement"). The purchase price for the Shares shall be $((ExercisePrice)) per Share for a total purchase price of $_____. The term "Shares" refers to the purchased Shares and all securities received in replacement of the Shares or as stock dividends or splits, all securities received in replacement of the Shares in a recapitalization, merger, reorganization, exchange or the like, and all new, substituted or additional securities or other properties to which Purchaser is entitled by reason of Purchaser's ownership of the Shares.

2. TIME AND PLACE OF EXERCISE. The purchase and sale of the Shares under this Agreement shall occur at the principal office of the Company simultaneously with the execution and delivery of this Agreement in accordance with the provisions of Section 2(b) of the Option Agreement. On such date, the Company will deliver to Purchaser a certificate representing the Shares to be

purchased by Purchaser (which shall be issued in Purchaser's name) against payment of the exercise price therefor by Purchaser by (a) check made payable to the Company, (b) cancellation of indebtedness of the Company to Purchaser, (c) delivery of shares of the Common Stock of the Company in accordance with Section 3 of the Option Agreement, or (d) a combination of the foregoing.

3. LIMITATIONS ON TRANSFER. In addition to any other limitation on transfer created by applicable securities laws, Purchaser shall not assign, encumber or dispose of any interest in the Shares except in compliance with the provisions below and applicable securities laws.

(a) RIGHT OF FIRST REFUSAL. Before any Shares held by Purchaser or any transferee of Purchaser (either being sometimes referred to herein as the "Holder") may be sold or otherwise transferred (including transfer by gift or operation of law), the Company or its assignee(s) shall have a right of first refusal to purchase the Shares on the terms and conditions set forth in this Section 3(a) (the "Right of First Refusal").

(i) NOTICE OF PROPOSED TRANSFER. The Holder of the Shares shall deliver to the Company a written notice (the "Notice") stating: (i) the Holder's bona fide

intention to sell or otherwise transfer such Shares; (ii) the name of each proposed purchaser or other transferee ("Proposed Transferee"); (iii) the number of Shares to be transferred to each Proposed Transferee; and (iv) the terms and conditions of each proposed sale or transfer. The Holder shall offer the Shares at the same price (the "Offered Price") and upon the same terms (or terms as similar as reasonably possible) to the Company or its assignee(s).

(ii) EXERCISE OF RIGHT OF FIRST REFUSAL. At any time within 30 days after receipt of the Notice, the Company and/or its assignee(s) may, by giving written notice to the Holder, elect to purchase all, but not less than all, of the Shares proposed to be transferred to any one or more of the Proposed Transferees, at the purchase price determined in accordance with subsection (iii) below.

(iii) PURCHASE PRICE. The purchase price ("Purchase Price") for the Shares purchased by the Company or its assignee(s) under this Section 3(a) shall be the Offered Price. If the Offered Price includes consideration other than cash, the cash equivalent value of the non-cash consideration shall be determined by the Board of Directors of the Company in good faith.

(iv) PAYMENT. Payment of the Purchase Price shall be made, at the option of the Company or its assignee(s), in cash (by check), by cancellation of all or a portion of any outstanding indebtedness of the Holder to the Company (or, in the case of repurchase by an assignee, to the assignee), or by any combination thereof within 30 days after receipt of the Notice or in the manner and at the times set forth in the Notice.

(v) HOLDER'S RIGHT TO TRANSFER. If all of the Shares proposed in the Notice to be transferred to a given Proposed Transferee are not purchased by the Company and/or its assignee(s) as provided in this Section 3(a), then the Holder may sell or otherwise transfer such Shares to that Proposed Transferee at the Offered Price or at a higher price, provided that such sale or other transfer is consummated within 60 days after the date of the Notice and provided further that any such sale or other transfer is effected in accordance with any applicable securities laws and the Proposed Transferee agrees in writing that the provisions of this Section 3 shall continue to apply to the Shares in the hands of such Proposed Transferee. If the Shares described in the Notice are not transferred to the Proposed Transferee within such period, or if the Holder proposes to change the price or other terms to make them more favorable to the Proposed Transferee, a new Notice shall be given to the Company, and the Company and/or its assignees shall again be offered the Right of First Refusal before any Shares held by the Holder may be sold or otherwise transferred.

(vi) EXCEPTION FOR CERTAIN FAMILY TRANSFERS. Anything to the contrary contained in this Section 3(a) notwithstanding, the transfer of any or all of the Shares during Purchaser's lifetime or on Purchaser's death by will or intestacy to Purchaser's Immediate Family (as defined below) or a trust for the benefit of Purchaser's Immediate Family shall be exempt from the provisions of

this Section 3(a). "Immediate Family" as used herein shall mean spouse, lineal descendant or antecedent, father, mother, brother or sister. In such case, the transferee or other recipient shall receive and hold the Shares so transferred subject to the provisions of this Section, and there shall be no further transfer of such Shares except in accordance with the terms of this Section 3.

(b) INVOLUNTARY TRANSFER.

(i) COMPANY'S RIGHT TO PURCHASE UPON INVOLUNTARY TRANSFER. In the event, at any time after the date of this Agreement, of any transfer by operation of law or other involuntary transfer (including divorce or death, but excluding, in the event of death, a transfer to Immediate Family as set forth in Section 3(a)(vi) above) of all or a portion of the Shares by the record holder thereof, the Company shall have the right to purchase all of the Shares transferred at the greater of the purchase price paid by Purchaser pursuant to this Agreement or the Fair Market Value of the Shares on the date of transfer. Upon such a transfer, the person acquiring the Shares shall promptly notify the Secretary of the Company of such transfer. The right to purchase such Shares shall be provided to the Company for a period of 30 days following receipt by the Company of written notice by the person acquiring the Shares.

(ii) PRICE FOR INVOLUNTARY TRANSFER. With respect to any stock to be transferred pursuant to Section 3(b)(i), the price per Share shall be a price set by the Board of Directors of the Company that will reflect the current value of the stock in terms of present earnings and future prospects of the Company. The Company shall notify Purchaser or his or her executor of the price so determined within 30 days after receipt by it of written notice of the transfer or proposed transfer of Shares. However, if the Purchaser does not agree with the valuation as determined by the Board of Directors of the Company, the Purchaser shall be entitled to have the valuation determined by an independent appraiser to be mutually agreed upon by the Company and the Purchaser and whose fees shall be borne equally by the Company and the Purchaser.

(c) ASSIGNMENT. The right of the Company to purchase any part of the Shares may be assigned in whole or in part to any shareholder or shareholders of the Company or other persons or organizations; provided, however, that an assignee, other than a corporation that is the Parent or a 100% owned Subsidiary of the Company, must pay the Company, upon assignment of such right, cash equal to the difference between the original purchase price and Fair Market Value, if the original purchase price is less than the Fair Market Value of the Shares subject to the assignment.

(d) RESTRICTIONS BINDING ON TRANSFEREES. All transferees of Shares or any interest therein will receive and hold such Shares or interest subject to the provisions of this Agreement. Any sale or transfer of the Shares shall be void unless the provisions of this Agreement are satisfied.

(e) TERMINATION OF RIGHTS. The Right of First Refusal and the Company's right to repurchase the Shares in the event of an involuntary transfer pursuant to Section 3(b) above shall terminate upon the first sale of Common Stock of the Company to the general public pursuant to a registration statement filed with and declared effective by the Securities and Exchange Commission under the Securities Act of 1933, as amended (the "Securities Act").

(f) MARKET STANDOFF AGREEMENT. In connection with the initial public offering of the Company's securities and upon request of the Company or the underwriters

managing such underwritten offering of the Company's securities, Purchaser agrees not to sell, make any short sale of, loan, grant any option for the purchase of, or otherwise dispose of any securities of the Company (other than those included in the registration) without the prior written consent of the Company or such underwriters, as the case may be, for such period of time (not to exceed 180 days) from the effective date of such registration as may be requested by the Company or such managing underwriters and to execute an agreement reflecting the foregoing as may be requested by the underwriters at

the time of the Company's initial public offering.

4. INVESTMENT AND TAXATION REPRESENTATIONS. In connection with the purchase of the Shares, Purchaser represents to the Company the following:

(a) Purchaser is aware of the Company's business affairs and financial condition and has acquired sufficient information about the Company to reach an informed and knowledgeable decision to acquire the Shares. Purchaser is purchasing the Shares for investment for his or her own account only and not with a view to, or for resale in connection with, any "distribution" thereof within the meaning of the Securities Act.

(b) Purchaser understands that the Shares have not been registered under the Securities Act by reason of a specific exemption therefrom, which exemption depends upon, among other things, the bona fide nature of Purchaser's investment intent as expressed herein.

(c) Purchaser understands that the Shares are "restricted securities" under applicable U.S. federal and state securities laws and that, pursuant to these laws, Purchaser must hold the Shares indefinitely unless they are registered with the Securities and Exchange Commission and qualified by state authorities, or an exemption from such registration and qualification requirements is available. Purchaser acknowledges that the Company has no obligation to register or qualify the Shares for resale. Purchaser further acknowledges that if an exemption from registration or qualification is available, it may be conditioned on various requirements including, but not limited to, the time and manner of sale, the holding period for the Shares, and requirements relating to the Company which are outside of the Purchaser's control, and which the Company is under no obligation and may not be able to satisfy.

(d) Purchaser understands that Purchaser may suffer adverse tax consequences as a result of Purchaser's purchase or disposition of the Shares. Purchaser represents that Purchaser has consulted any tax consultants Purchaser deems advisable in connection with the purchase or disposition of the Shares and that Purchaser is not relying on the Company for any tax advice.

5. RESTRICTIVE LEGENDS AND STOP-TRANSFER ORDERS.

(a) LEGENDS. The certificate or certificates representing the Shares shall bear the following legends (as well as any legends required by applicable state and federal corporate and securities laws):

(i) THE SHARES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE

SECURITIES ACT OF 1933, AND HAVE BEEN ACQUIRED FOR INVESTMENT AND NOT WITH A VIEW TO, OR IN CONNECTION WITH, THE SALE OR DISTRIBUTION THEREOF. NO SUCH SALE OR DISTRIBUTION MAY BE EFFECTED WITHOUT AN EFFECTIVE REGISTRATION STATEMENT RELATED THERETO OR AN OPINION OF COUNSEL IN A FORM SATISFACTORY TO THE COMPANY THAT SUCH REGISTRATION IS NOT REQUIRED UNDER THE SECURITIES ACT OF 1933.

(ii) THE SHARES REPRESENTED BY THIS CERTIFICATE MAY BE TRANSFERRED ONLY IN ACCORDANCE WITH THE TERMS OF AN AGREEMENT BETWEEN THE COMPANY AND THE SHAREHOLDER, A COPY OF WHICH IS ON FILE WITH THE SECRETARY OF THE COMPANY.

(b) STOP-TRANSFER NOTICES. Purchaser agrees that, in order to ensure compliance with the restrictions referred to herein, the Company may issue appropriate "stop transfer" instructions to its transfer agent, if any, and that, if the Company transfers its own securities, it may make appropriate notations to the same effect in its own records.

(c) REFUSAL TO TRANSFER. The Company shall not be required (i) to transfer on its books any Shares that have been sold or otherwise transferred in violation of any of the provisions of this Agreement or (ii) to treat as owner of such Shares or to accord the right to vote or pay dividends to any

purchaser or other transferee to whom such Shares shall have been so transferred.

(d) REMOVAL OF LEGEND. When all of the following events have occurred, the Shares then held by Purchaser will no longer be subject to the legend referred to in Section 5(a)(ii): (i) the termination of the Right of First Refusal; and (ii) the expiration or termination of the market standoff provisions of Section 3(f) (and of any agreement entered pursuant to Section 3(f)). After such time, and upon Purchaser's request, a new certificate or certificates representing the Shares not repurchased shall be issued without the legend referred to in Section 5(a)(ii), and delivered to Purchaser.

6. NO EMPLOYMENT RIGHTS. Nothing in this Agreement shall affect in any manner whatsoever the right or power of the Company, or a Parent or Subsidiary of the Company, to terminate Purchaser's employment or consulting relationship, for any reason, with or without cause.

7. MISCELLANEOUS.

(a) GOVERNING LAW. This Agreement and all acts and transactions pursuant hereto and the rights and obligations of the parties hereto shall be governed, construed and interpreted in accordance with the laws of the State of California, without giving effect to principles of conflicts of law.

(b) ENTIRE AGREEMENT; ENFORCEMENT OF RIGHTS. This Agreement sets forth the entire agreement and understanding of the parties relating to the subject matter herein and merges all prior discussions between them. No modification of or amendment to this Agreement, nor any waiver of any rights under this Agreement, shall be effective unless in writing signed by the parties to this Agreement. The failure by either party to enforce any rights under this Agreement shall not be construed as a waiver of any rights of such party.

(c) SEVERABILITY. If one or more provisions of this Agreement are held to be unenforceable under applicable law, the parties agree to renegotiate such provision in good faith. In the event that the parties cannot reach a mutually agreeable and enforceable replacement for such provision, then (i) such provision shall be excluded from this Agreement, (ii) the balance of the Agreement shall be interpreted as if such provision were so excluded and (iii) the balance of the Agreement shall be enforceable in accordance with its terms.

(d) CONSTRUCTION. This Agreement is the result of negotiations between and has been reviewed by each of the parties hereto and their respective counsel, if any; accordingly, this Agreement shall be deemed to be the product of all of the parties hereto, and no ambiguity shall be construed in favor of or against any one of the parties hereto.

(e) NOTICES. Any notice required or permitted by this Agreement shall be in writing and shall be deemed sufficient when delivered personally or sent by telegram or fax or 48 hours after being deposited in the U.S. mail, as certified or registered mail, with postage prepaid, and addressed to the party to be notified at such party's address as set forth below or as subsequently modified by written notice.

(f) COUNTERPARTS. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original and all of which together shall constitute one instrument.

(g) SUCCESSORS AND ASSIGNS. The rights and benefits of this Agreement shall inure to the benefit of, and be enforceable by the Company's successors and assigns. The rights and obligations of Purchaser under this Agreement may only be assigned with the prior written consent of the Company.

[Signature Page Follows]

The parties have executed this Exercise Notice and Restricted Stock

Purchase Agreement as of the date first set forth above.

COMPANY:

SYNAPTICS INCORPORATED

By:

_____

Name: MaryJo Visneski

Title: Corporate Controller

2381 Bering Drive
San Jose, CA 95131

PURCHASER:

((OPTIONEE))

_____
(Signature)

_____
(Print Name)

Address:

_____

_____

I, _____, spouse of ((Optionee)), have read and hereby approve the foregoing Agreement. In consideration of the Company's granting my spouse the right to purchase the Shares as set forth in the Agreement, I hereby agree to be bound irrevocably by the Agreement and further agree that any community property or similar interest that I may have in the Shares shall hereby be similarly bound by the Agreement. I hereby appoint my spouse as my attorney-in-fact with respect to any amendment or exercise of any rights under the Agreement.

_____
Spouse of ((Optionee))

EXHIBIT 10.6

SYNAPTICS INCORPORATED

2001 INCENTIVE COMPENSATION PLAN

SYNAPTICS, INCORPORATED

2001 INCENTIVE COMPENSATION PLAN

SYNAPTICS INCORPORATED

2001 INCENTIVE COMPENSATION PLAN

1. Purpose. The purpose of this 2001 INCENTIVE COMPENSATION PLAN (the "Plan") is to assist SYNAPTICS INCORPORATED, a California corporation (the "Company") and its Related Entities in attracting, motivating, retaining and rewarding high-quality executives and other Employees, officers, Directors and independent Contractors by enabling such persons to acquire or increase a proprietary interest in the Company in order to strengthen the mutuality of interests between such persons and the Company's stockholders, and providing such persons with annual and long term performance incentives to expend their maximum efforts in the creation of shareholder value. In the event that the Company is or becomes a Publicly Held Corporation (as hereinafter defined), the Plan is intended to qualify certain compensation awarded under the Plan for tax deductibility under Section 162(m) of the Code (as hereafter defined) to the extent deemed appropriate by the Committee (or any successor committee) of the Board of Directors of the Company.

2. Definitions. For purposes of the Plan, the following terms shall be defined as set forth below, in addition to such terms defined in Section 1 hereof.

(a) "Annual Incentive Award" means a conditional right granted to a Participant under Section 8(c) hereof to receive a cash payment, Stock or other Award, unless otherwise determined by the Committee, after the end of a specified fiscal year.

(b) "Award" means any Option, Stock Appreciation Right (including Limited Stock Appreciation Right), Restricted Stock, Deferred Stock, Stock granted as a bonus or in lieu of another award, Dividend Equivalent, Other Stock-Based Award, Performance Award or Annual Incentive Award, together with any other right or interest, granted to a Participant under the Plan.

(c) "Beneficiary" means the person, persons, trust or trusts which have been designated by a Participant in his or her most recent written beneficiary designation filed with the Committee to receive the benefits specified under the Plan upon such Participant's death or to which Awards or other rights are transferred if and to the extent permitted under Section 10(b) hereof. If, upon a Participant's death, there is no designated Beneficiary or surviving designated Beneficiary, then the term Beneficiary means the person, persons, trust or trusts entitled by will or the laws of descent and distribution to receive such benefits.

(d) "Beneficial Owner", "Beneficially Owning" and "Beneficial Ownership" shall have the meanings ascribed to such terms in Rule 13d-3 under the Exchange Act and any successor to such Rule.

(e) "Board" means the Company's Board of Directors.

(f) "Cause" shall, with respect to any Participant, have the equivalent meaning (or the same meaning as "cause" or "for cause") set forth in any employment agreement between the Participant and the Company or a Related Entity or, in the absence of any such agreement, such term shall mean (i) the failure by the Participant to perform his or her duties as assigned by the Company (or a Related Entity) in a reasonable manner, (ii) any violation or breach by the Participant of his or her employment agreement with the Company (or a Related Entity), if any, (iii) any violation or breach by the Participant of his or her non-competition and/or non-disclosure agreement with the Company (or a Related Entity), if any, (iv) any act by the Participant of dishonesty or bad faith with respect to the Company (or a Related Entity), (v) chronic addiction to alcohol, drugs or other similar substances affecting the Participant's work performance, or (vi) the commission by the Participant of any act, misdemeanor, or crime reflecting unfavorably upon the Participant or the Company. The good faith determination by the Committee of whether the Participant's Continuous Service was terminated by the Company for "Cause" shall be final and binding for all purposes hereunder.

(g) "Change in Control" means a Change in Control as defined with related terms in Section 9 of the Plan.

(h) "Change in Control Price" means the amount calculated in accordance with Section 9(c) of the Plan.

(i) "Code" means the Internal Revenue Code of 1986, as amended from time to time, including regulations thereunder and successor provisions and regulations thereto.

(j) "Committee" means a committee designated by the Board to administer the Plan; provided, however, that the Committee shall consist of at least two directors, and, in the event the Company is or becomes a Publicly Held Corporation (as hereinafter defined), each member of which shall be (i) a "non-employee director" within the meaning of Rule 16b-3 under the Exchange Act, unless administration of the Plan by "non-employee directors" is not then required in order for exemptions under Rule 16b-3 to apply to transactions under the Plan, and (ii) an "outside director" within the meaning of Section 162(m) of the Code, unless administration of the Plan by "outside directors" is not then required in order to qualify for tax deductibility under Section 162(m) of the Code.

(k) "Consultant" means any person (other than an Employee or a Director, solely with respect to rendering services in such person's capacity as a director) who is engaged by the Company or any Related Entity to render consulting or advisory services to the Company or such Related Entity.

(l) "Continuous Service" means uninterrupted provision of services to the Company in any capacity of Employee, Director, or Consultant. Continuous Service shall not be considered to be interrupted in the case of (i) any approved leave of absence, (ii) transfers among the Company, any Related Entities, or any successor entities, in any capacity of Employee Director, or Consultant, or (iii) any change in status as long as the individual remains in the service of the Company or a Related Entity in any capacity of Employee, Director, or Consultant

(except as otherwise provided in the Option Agreement). An approved leave of absence shall include sick leave, military leave, or any other authorized personal leave.

(m) "Corporate Transaction" means a Corporate Transaction as defined in Section 9(b)(i) of the Plan.

(n) "Covered Employee" means an Eligible Person who is a Covered Employee as specified in Section 7(e) of the Plan.

(o) "Deferred Stock" means a right, granted to a Participant under Section 6(e) hereof, to receive Stock, cash or a combination thereof at the end of a specified deferral period.

(p) "Director" means a member of the Board or the board of directors of any Related Entity.

(q) "Disability" means a permanent and total disability (within the meaning of Section 22(e) of the Code), as determined by a medical doctor satisfactory to the Committee.

(r) "Dividend Equivalent" means a right, granted to a Participant under Section 6(g) hereof, to receive cash, Stock, other Awards or other property equal in value to dividends paid with respect to a specified number of shares of Stock, or other periodic payments.

(s) "Effective Date" means the effective date of the Plan, which shall be March 7, 2001.

(t) "Eligible Person" means each Executive Officer of the Company (as defined under the Exchange Act) and other officers, Directors and Employees of the Company or of any Related Entity, and independent contractors with the Company or any Related Entity. The foregoing notwithstanding, only employees of the Company, the Parent, or any Subsidiary shall be Eligible Persons for purposes of receiving any Incentive Stock Options. An Employee on leave of absence may be considered as still in the employ of the Company or a Related Entity for purposes of eligibility for participation in the Plan.

(u) "Employee" means any person, including an officer or Director, who is an employee of the Company or any Related Entity. The Payment of a director's fee by the Company or a Related Entity shall not be sufficient

to constitute "employment" by the Company.

(v) "Exchange Act" means the Securities Exchange Act of 1934, as amended from time to time, including rules thereunder and successor provisions and rules thereto.

(w) "Executive Officer" means an executive officer of the Company as defined under the Exchange Act.

(x) "Fair Market Value" means the fair market value of Stock, Awards or other property as determined by the Committee or the Board, or under procedures established by the Committee or the Board. Unless otherwise determined by the Committee or the Board, the

Fair Market Value of Stock as of any given date after which the Company is a Publicly Held Corporation shall be the closing sale price per share reported on a consolidated basis for stock listed on the principal stock exchange or market on which Stock is traded on the date as of which such value is being determined or, if there is no sale on that date, then on the last previous day on which a sale was reported.

(y) "Good Reason" shall, with respect to any Participant, have the equivalent meaning (or the same meaning as "good reason" or "for good reason") set forth in any employment agreement between the Participant and the Company or a Related Entity or, in the absence of any such agreement, such term shall mean (i) the assignment to the Participant of any duties inconsistent in any respect with the Participant's position (including status, offices, titles and reporting requirements), authority, duties or responsibilities as assigned by the Company (or a Related Entity), or any other action by the Company (or a Related Entity) which results in a diminution in such position, authority, duties or responsibilities, excluding for this purpose an isolated, insubstantial and inadvertent action not taken in bad faith and which is remedied by the Company (or a Related Entity) promptly after receipt of notice thereof given by the Participant; (ii) any failure by the Company (or a Related Entity) to comply with its obligations to the Participant as agreed upon, other than an isolated, insubstantial and inadvertent failure not occurring in bad faith and which is remedied by the Company (or a Related Entity) promptly after receipt of notice thereof given by the Participant; (iii) the Company's (or Related Entity's) requiring the Participant to be based at any office or location outside of fifty miles from the location of employment as of the date of Award, except for travel reasonably required in the performance of the Participant's responsibilities; (iv) any purported termination by the Company (or a Related Entity) of the Participant's Continuous Service otherwise than for Cause as defined in Section 2(f), or by reason of the Participant's Disability as defined in Section 2(o), prior to the Expiration Date. For purposes of this Section 2(v), any good faith determination of "Good Reason" made by the Company shall be conclusive.

(z) "Incentive Stock Option" means any Option intended to be designated as an incentive stock option within the meaning of Section 422 of the Code or any successor provision thereto.

(aa) "Incumbent Board" means the Incumbent Board as defined in Section 9(b)(ii) of the Plan.

(bb) "Limited Stock Appreciation Right" means a right granted to a Participant under Section 6(c) hereof.

(cc) "Option" means a right granted to a Participant under Section 6(b) hereof, to purchase Stock or other Awards at a specified price during specified time periods.

(dd) "Optionee" means a person to whom an Option or Incentive Stock Option is granted under this Plan or any person who succeeds to the rights of such person under this Plan.

(ee) "Other Stock-Based Awards" means Awards granted to a Participant under Section 6(h) hereof.

(ff) "Parent" means a "parent corporation," whether now or hereafter existing, as defined in Section 424(e) of the Code.

(gg) "Participant" means a person who has been granted an Award under the Plan which remains outstanding, including a person who is no longer an Eligible Person.

(hh) "Performance Award" means a right, granted to an Eligible Person under Section 8 hereof, to receive Awards based upon performance criteria specified by the Committee or the Board.

(ii) "Person" shall have the meaning ascribed to such term in Section 3(a)(9) of the Exchange Act and used in Sections 13(d) and 14(d) thereof, and shall include a "group" as defined in Section 13(d) thereof.

(jj) "Publicly Held Corporation" shall mean a publicly held corporation as that term is used under Section 162(m)(2) of the Code.

(kk) "Restricted Stock" means Stock granted to a Participant under Section 6(d) hereof, that is subject to certain restrictions and to a risk of forfeiture.

(ll) "Rule 16b-3" and "Rule 16a-1(c)(3)" means Rule 16b-3 and Rule 16a-1(c)(3), as from time to time in effect and applicable to the Plan and Participants, promulgated by the Securities and Exchange Commission under Section 16 of the Exchange Act.

(mm) "Stock" means the Company's Common Stock, and such other securities as may be substituted (or resubstituted) for Stock pursuant to Section 10(c) hereof.

(nn) "Stock Appreciation Right" means a right granted to a Participant under Section 6(c) hereof.

(oo) "Subsidiary" means a "subsidiary corporation" whether now or hereafter existing, as defined in Section 424(f) of the Code.

3. Administration.

(a) Authority of the Committee. The Plan shall be administered by the Committee; provided, however, that except as otherwise expressly provided in this Plan or, during the period that the Company is a Publicly Held Corporation, in order to comply with Code Section 162(m) or Rule 16b-3 under the Exchange Act, the Board may exercise any power or authority granted to the Committee under this Plan. The Committee or the Board shall have full and final authority, in each case subject to and consistent with the provisions of the Plan, to select Eligible Persons to become Participants, grant Awards, determine the type, number and other terms and conditions of, and all other matters relating to, Awards, prescribe Award agreements (which need not be identical for each Participant) and rules and regulations for the administration of the Plan, construe and interpret the Plan and Award agreements and correct defects, supply omissions or reconcile inconsistencies therein, and to make all other decisions and determinations as the Committee or the Board may deem necessary or advisable for the

administration of the Plan. In exercising any discretion granted to the Committee or the Board under the Plan or pursuant to any Award, the Committee or the Board shall not be required to follow past practices, act in a manner consistent with past practices, or treat any Eligible Person in a manner consistent with the treatment of other Eligible Persons.

(b) Manner of Exercise of Committee Authority. In the event that the Company is or becomes a Publicly Held Corporation, the Committee, and not the Board, shall exercise sole and exclusive discretion on any matter relating to a Participant then subject to Section 16 of the Exchange Act with respect to the Company to the extent necessary in order that transactions by such Participant shall be exempt under Rule 16b-3 under the Exchange Act. Any action of the Committee or the Board shall be final, conclusive and binding on all persons, including the Company, its Related Entities, Participants, Beneficiaries, transferees under Section 10(b) hereof or other persons claiming

rights from or through a Participant, and stockholders. The express grant of any specific power to the Committee or the Board, and the taking of any action by the Committee or the Board, shall not be construed as limiting any power or authority of the Committee or the Board. The Committee or the Board may delegate to officers or managers of the Company or any Related Entity, or committees thereof, the authority, subject to such terms as the Committee or the Board shall determine, (i) to perform administrative functions, (ii) with respect to Participants not subject to Section 16 of the Exchange Act, to perform such other functions as the Committee or the Board may determine, and (iii) with respect to Participants subject to Section 16, to perform such other functions of the Committee or the Board as the Committee or the Board may determine to the extent performance of such functions will not result in the loss of an exemption under Rule 16b-3 otherwise available for transactions by such persons, in each case to the extent permitted under applicable law and subject to the requirements set forth in Section 7(d). The Committee or the Board may appoint agents to assist it in administering the Plan.

(c) Limitation of Liability. The Committee and the Board, and each member thereof, shall be entitled to, in good faith, rely or act upon any report or other information furnished to him or her by any Executive Officer, other officer or Employee, the Company's independent auditors, Consultants or any other agents assisting in the administration of the Plan. Members of the Committee and the Board, and any officer or Employee acting at the direction or on behalf of the Committee or the Board, shall not be personally liable for any action or determination taken or made in good faith with respect to the Plan, and shall, to the extent permitted by law, be fully indemnified and protected by the Company with respect to any such action or determination.

4. Stock Subject to Plan.

(a) Limitation on Overall Number of Shares Subject to Awards. Subject to adjustment as provided in Section 10(c) hereof, the total number of shares of Stock reserved and available for delivery in connection with Awards under the Plan shall be the sum of (i) 400,000, plus (ii) the number of shares with respect to Awards previously granted under the Plan that terminate without being exercised, expire, are forfeited or canceled, and the number of shares of Stock that are surrendered in payment of any Awards or any tax withholding with regard thereto. In the event an Initial Public Offering ("IPO") of the shares of the Company's Stock occurs, the

overall number of shares of the Company's Stock subject to Awards shall be further increased by 6% of the total number of shares of the Company's Stock outstanding immediately following the IPO, plus, on the first day of each subsequent calendar quarter, an additional 1.5% of the total number of shares of the Company's Stock outstanding on that day, provided, however, that at no time shall the number of shares of the Company's Stock subject to Awards exceed 30% of the then outstanding shares of the Company's Stock (counting convertible preferred and convertible senior common shares as if converted), unless a greater percentage is approved by a vote of at least two-thirds of the securities entitled to vote, or a determination is made by counsel for the Company that such restriction is not required by applicable federal or state securities laws under the circumstances. Any shares of Stock delivered under the Plan may consist, in whole or in part, of authorized and unissued shares or treasury shares.

(b) Limitation on Number of Incentive Stock Option Shares. Subject to adjustment as provided in Section 10(c) hereof, the number of shares of Stock which may be issued pursuant to Incentive Stock Options shall be the lesser of (i) the number of Shares that may be subject to Awards under Section 4(a), or (ii) 15,000,000.

(c) Application of Limitations. The limitation contained in this Section 4 shall apply not only to Awards that are settleable by the delivery of shares of Stock but also to Awards relating to shares of Stock but settleable only in cash (such as cash-only Stock Appreciation Rights). The Committee or the Board may adopt reasonable counting procedures to ensure appropriate counting, avoid double counting (as, for example, in the case of tandem or substitute awards) and make adjustments if the number of shares of Stock actually delivered differs from the number of shares previously counted in connection with an Award.

5. Eligibility; Per-Person Award Limitations. Awards may be granted under the Plan only to Eligible Persons. In each fiscal year during any part of which the Plan is in effect, an Eligible Person may not be granted Awards relating to more than 1,000,000 shares of Stock, subject to adjustment as provided in Section 10(c), under each of Sections 6(b), 6(c), 6(d), 6(e), 6(f), 6(g), 6(h), 7(b) and 7(c). In addition, the maximum amount that may be earned as an Annual Incentive Award or other cash Award in any fiscal year by any one Participant shall be $2,000,000, and the maximum amount that may be earned as a Performance Award or other cash Award in respect of a performance period by any one Participant shall be $5,000,000.

6. Specific Terms of Awards.

(a) General. Awards may be granted on the terms and conditions set forth in this Section 6. In addition, the Committee or the Board may impose on any Award or the exercise thereof, at the date of grant or thereafter (subject to Section 10(e)), such additional terms and conditions, not inconsistent with the provisions of the Plan, as the Committee or the Board shall determine, including terms requiring forfeiture of Awards in the event of termination of Continuous Service by the Participant and terms permitting a Participant to make elections relating to his or her Award. The Committee or the Board shall retain full power and discretion to accelerate, waive or modify, at any time, any term or condition of an Award that is not mandatory under the Plan. Except in cases in which the Committee or the Board is authorized to require other forms of consideration under the Plan, or to the extent other forms of consideration

must be paid to satisfy the requirements of California law, no consideration other than services may be required for the grant (but not the exercise) of any Award.

(b) Options. The Committee and the Board each is authorized to grant Options to Participants on the following terms and conditions:

(i) Stock Option Agreement. Each grant of an Option under the Plan shall be evidenced by a Stock Option Agreement. Such Stock Option Agreement shall be subject to all applicable terms and conditions of the Plan and may be subject to any other terms and conditions which are not inconsistent with the Plan and which the Committee or the Board deems appropriate for inclusion in a Stock Option Agreement. The provisions of the various Stock Option Agreements entered into under the Plan need not be identical.

(ii) Number of Shares. Each Stock Option Agreement shall specify the number of shares of Stock that are subject to the Option and shall provide for the adjustment of such number in accordance with Section 10(c) hereof. The Stock Option Agreement shall also specify whether the Stock Option is an Incentive Stock Option or a Non-Qualified Stock Option.

(iii) Exercise Price.

(A) In General. Each Stock Option Agreement shall state the price at which shares of Stock subject to the Option may be purchased (the "Exercise Price"), which shall be, with respect to Incentive Stock Options, not less than 100% of the Fair Market Value of the Stock on the date of grant. In the case of Non-Qualified Stock Options, the Exercise Price shall be determined in the sole discretion of the Committee or the Board; provided, however, that the Exercise Price shall be no less than 85% of the Fair Market Value of the shares of Stock on the date of grant of the Non-Qualified Stock Option.

(B) Ten Percent Shareholder. If an individual owns or is deemed to own (by reason of the attribution rules applicable under Section 424(d) of the Code) more than 10% of the combined voting power of all classes of stock of the Company or any Related Entity, any Option granted to such individual must comply with the following: (1) the Exercise Price of a Non-Qualified Stock Option must be at

least 110% of the Fair Market Value of a share of Stock on the date of grant, or (2) in the case of an Incentive Stock Option, the Exercise Price must be at least 110% of the Fair Market Value of a share of Stock on the date of grant and such Incentive Stock Option by its terms is not exercisable after the expiration of five years from the date of grant.

(C) Non-Applicability. The Exercise Price restriction applicable to Non-Qualified Stock Options required by Sections 6(b)(iii)(A) and 6(b)(iii)(B) shall be inoperative if (1) the offer and sale of the shares of Stock to be issued upon payment of the Exercise Price have been registered under a then currently effective registration statement under applicable federal or state

securities laws, or (2) a determination is made by counsel for the Company that such Exercise Price restrictions are not required in the circumstances under applicable federal or state securities laws.

(iv) Time and Method of Exercise. The Committee or the Board shall determine the time or times at which or the circumstances under which an Option may be exercised in whole or in part (including based on achievement of performance goals and/or future service requirements), provided that in the case of an Optionee who is not an officer, Director, or Consultant of the Company or a Related Entity, his or her Options shall become exercisable at least as rapidly as 20% per year, over a 5 year period commencing on the date of the grant, unless a determination is made by counsel for the Company that such vesting requirements are not required in the circumstances under applicable federal or state securities laws. The Board or the Committee may also determine the time or times at which Options shall cease to be or become exercisable following termination of Continuous Service or upon other conditions; provided, however, if the Optionee's Continuous Service is terminated for any reason other than Cause, [that portion of the Option that is exercisable as of the date of termination shall remain exercisable for at least 6 months from the date of termination if by reason of death or Disability, and for at least 30 days from the date of termination if by reason other than the Optionee's death or Disability.] The Board or the Committee may determine the methods by which such exercise price may be paid or deemed to be paid (including in the discretion of the Committee or the Board a cashless exercise procedure), the form of such payment, including, without limitation, cash, Stock, other Awards or awards granted under other plans of the Company or a Related Entity, or other property (including notes or other contractual obligations of Participants to make payment on a deferred basis), and the methods by or forms in which Stock will be delivered or deemed to be delivered to Participants.

(v) Incentive Stock Options. The terms of any Incentive Stock Option granted under the Plan shall comply in all respects with the provisions of Section 422 of the Code. Anything in the Plan to the contrary notwithstanding, no term of the Plan relating to Incentive Stock Options (including any Stock Appreciation Rights in tandem therewith) shall be interpreted, amended or altered, nor shall any discretion or authority granted under the Plan be exercised, so as to disqualify either the Plan or any Incentive Stock Option under Section 422 of the Code, unless the Participant has first requested the change that will result in such disqualification. Thus, if and to the extent required to comply with Section 422 of the Code, Options granted as Incentive Stock Options shall be subject to the following special terms and conditions:

(A) the Option shall not be exercisable more than ten years after the date such Incentive Stock Option is

granted; provided, however, that if a Participant owns or is deemed to own (by reason of the attribution rules of Section 424(d) of the Code) more than 10% of the combined voting power of all classes

of stock of the Company or any Parent Corporation and the Incentive Stock Option is granted to such Participant, the term of the Incentive Stock Option shall be (to the extent required by the Code at the time of the grant) for no more than five years from the date of grant; and

(B) The aggregate Fair Market Value (determined as of the date the Incentive Stock Option is granted) of the shares of stock with respect to which Incentive Stock Options granted under the Plan and all other option plans of the Company or its Parent Corporation during any calendar year exercisable for the first time by the Participant during any calendar year shall not (to the extent required by the Code at the time of the grant) exceed $100,000.

(vi) Repurchase Rights. The Committee and the Board shall have the discretion to grant Options which are exercisable for unvested shares of Common Stock. Should the Optionee's Continuous Service cease while holding such unvested shares, the Company shall have the right to repurchase, at the exercise price paid per share, any or all of those unvested shares. The terms upon which such repurchase right shall be exercisable (including the period and procedure for exercise and the appropriate vesting schedule for the purchased shares) shall be established by the Committee or the Board and set forth in the document evidencing such repurchase right.

(c) Stock Appreciation Rights. The Committee and the Board each is authorized to grant Stock Appreciation Rights to Participants on the following terms and conditions:

(i) Right to Payment. A Stock Appreciation Right shall confer on the Participant to whom it is granted a right to receive, upon exercise thereof, the excess of (A) the Fair Market Value of one share of stock on the date of exercise (or, in the case of a "Limited Stock Appreciation Right" that may be exercised only in the event of a Change in Control, the Fair Market Value determined by reference to the Change in Control Price, as defined under Section 9(c) hereof), over (B) the grant price of the Stock Appreciation Right as determined by the Committee or the Board. The grant price of a Stock Appreciation Right shall not be less than the Fair Market Value of a share of Stock on the date of grant except as provided under Section 8(a) hereof.

(ii) Other Terms. The Committee or the Board shall determine at the date of grant or thereafter, the time or times at which and the circumstances under which a Stock Appreciation Right may be exercised in whole or in part (including based on achievement of performance goals and/or future service requirements), the time or times at which Stock Appreciation Rights shall cease to be or become exercisable following termination of Continuous Service or upon other conditions, the method of exercise, method of settlement, form of consideration payable in settlement, method by or forms in which Stock will be delivered or deemed to be delivered to Participants, whether or not a Stock Appreciation Right shall be in

tandem or in combination with any other Award, and any other

terms and conditions of any Stock Appreciation Right. Limited Stock Appreciation Rights that may only be exercised in connection with a Change in Control or other event as specified by the Committee or the Board, may be granted on such terms, not inconsistent with this Section 6(c), as the Committee or the Board may determine. Stock Appreciation Rights and Limited Stock Appreciation Rights may be either freestanding or in tandem with other Awards.

(d) Restricted Stock. The Committee and the Board each is authorized to grant Restricted Stock to Participants on the following terms and conditions:

(i) Grant and Restrictions. Restricted Stock shall be subject to such restrictions on transferability, risk of forfeiture and other restrictions, if any, as the Committee or the Board may impose, or as otherwise provided in this Plan. The restrictions may lapse separately or in combination at such times, under such circumstances (including based on achievement of performance goals and/or future service requirements), in such installments or otherwise, as the Committee or the Board may determine at the date of grant or thereafter. Except to the extent restricted under the terms of the Plan and any Award agreement relating to the Restricted Stock, a Participant granted Restricted Stock shall have all of the rights of a stockholder, including the right to vote the Restricted Stock and the right to receive dividends thereon (subject to any mandatory reinvestment or other requirement imposed by the Committee or the Board). During the restricted period applicable to the Restricted Stock, subject to Section 10(b) below, the Restricted Stock may not be sold, transferred, pledged, hypothecated, margined or otherwise encumbered by the Participant.

(ii) Forfeiture. Except as otherwise determined by the Committee or the Board at the time of the Award, upon termination of a Participant's Continuous Service during the applicable restriction period, the Participant's Restricted Stock that is at that time subject to restrictions shall be forfeited and reacquired by the Company; provided that the Committee or the Board may provide, by rule or regulation or in any Award agreement, or may determine in any individual case, that restrictions or forfeiture conditions relating to Restricted Stock shall be waived in whole or in part in the event of terminations resulting from specified causes, and the Committee or the Board may in other cases waive in whole or in part the forfeiture of Restricted Stock.

(iii) Certificates for Stock. Restricted Stock granted under the Plan may be evidenced in such manner as the Committee or the Board shall determine. If certificates representing Restricted Stock are registered in the name of the Participant, the Committee or the Board may require that such certificates bear an appropriate legend referring to the terms, conditions and restrictions applicable to such Restricted Stock, that the Company retain physical possession of the certificates, and that the Participant deliver a stock power to the Company, endorsed in blank, relating to the Restricted Stock.

(iv) Dividends and Splits. As a condition to the grant of an Award of Restricted Stock, the Committee or the Board may require that any cash dividends paid on a share of Restricted Stock be automatically reinvested in additional shares of Restricted Stock or applied to the purchase of additional Awards under the Plan. Unless otherwise determined by the Committee or the Board, Stock distributed in connection with a Stock split or Stock dividend, and other property distributed as a dividend, shall be subject to restrictions and a risk of forfeiture to the same extent as the Restricted Stock with respect to which such Stock or other property has

been distributed.

(e) Deferred Stock. The Committee and the Board each is authorized to grant Deferred Stock to Participants, which are rights to receive Stock, cash, or a combination thereof at the end of a specified deferral period, subject to the following terms and conditions:

(i) Award and Restrictions. Satisfaction of an Award of Deferred Stock shall occur upon expiration of the deferral period specified for such Deferred Stock by the Committee or the Board (or, if permitted by the Committee or the Board, as elected by the Participant). In addition, Deferred Stock shall be subject to such restrictions (which may include a risk of forfeiture) as the Committee or the Board may impose, if any, which restrictions may lapse at the expiration of the deferral period or at earlier specified times (including based on achievement of performance goals and/or future service requirements), separately or in combination, in installments or otherwise, as the Committee or the Board may determine. Deferred Stock may be satisfied by delivery of Stock, cash equal to the Fair Market Value of the specified number of shares of Stock covered by the Deferred Stock, or a combination thereof, as determined by the Committee or the Board at the date of grant or thereafter. Prior to satisfaction of an Award of Deferred Stock, an Award of Deferred Stock carries no voting or dividend or other rights associated with share ownership.

(ii) Forfeiture. Except as otherwise determined by the Committee or the Board, upon termination of a Participant's Continuous Service during the applicable deferral period thereof to which forfeiture conditions apply (as provided in the Award agreement evidencing the Deferred Stock), the Participant's Deferred Stock that is at that time subject to deferral (other than a deferral at the election of the Participant) shall be forfeited; provided that the Committee or the Board may provide, by rule or regulation or in any Award agreement, or may determine in any individual case, that restrictions or forfeiture conditions relating to Deferred Stock shall be waived in whole or in part in the event of terminations resulting from specified causes, and the Committee or the Board may in other cases waive in whole or in part the forfeiture of Deferred Stock.

(iii) Dividend Equivalents. Unless otherwise determined by the Committee or the Board at date of grant, any Dividend Equivalents that are granted with respect to any Award of Deferred Stock shall be either (A) paid with

respect to such Deferred Stock at the dividend payment date in cash or in shares of unrestricted Stock having a Fair Market Value equal to the amount of such dividends, or (B) deferred with respect to such Deferred Stock and the amount or value thereof automatically deemed reinvested in additional Deferred Stock, other Awards or other investment vehicles, as the Committee or the Board shall determine or permit the Participant to elect.

(f) Bonus Stock and Awards in Lieu of Obligations. The Committee and the Board each is authorized to grant Stock as a bonus, or to grant Stock or other Awards in lieu of Company obligations to pay cash or deliver other property under the Plan or under other plans or compensatory arrangements, provided that, in the case of Participants subject to Section 16 of the Exchange Act, the amount of such grants remains within the discretion of the Committee to the extent necessary to ensure that acquisitions of Stock or other Awards are exempt from liability under Section 16(b) of the Exchange Act. Stock or Awards granted hereunder shall be subject to such other terms as shall be determined by the Committee or the Board.

(g) Dividend Equivalents. The Committee and the Board each is authorized to grant Dividend Equivalents to a Participant entitling the

Participant to receive cash, Stock, other Awards, or other property equal in value to dividends paid with respect to a specified number of shares of Stock, or other periodic payments. Dividend Equivalents may be awarded on a free-standing basis or in connection with another Award. The Committee or the Board may provide that Dividend Equivalents shall be paid or distributed when accrued or shall be deemed to have been reinvested in additional Stock, Awards, or other investment vehicles, and subject to such restrictions on transferability and risks of forfeiture, as the Committee or the Board may specify.

(h) Other Stock-Based Awards. The Committee and the Board each is authorized, subject to limitations under applicable law, to grant to Participants such other Awards that may be denominated or payable in, valued in whole or in part by reference to, or otherwise based on, or related to, Stock, as deemed by the Committee or the Board to be consistent with the purposes of the Plan, including, without limitation, convertible or exchangeable debt securities, other rights convertible or exchangeable into Stock, purchase rights for Stock, Awards with value and payment contingent upon performance of the Company or any other factors designated by the Committee or the Board, and Awards valued by reference to the book value of Stock or the value of securities of or the performance of specified Related Entities or business units. The Committee or the Board shall determine the terms and conditions of such Awards. Stock delivered pursuant to an Award in the nature of a purchase right granted under this Section 6(h) shall be purchased for such consideration (including without limitation loans from the Company or a Related Entity), paid for at such times, by such methods, and in such forms, including, without limitation, cash, Stock, other Awards or other property, as the Committee or the Board shall determine. The Committee and the Board shall have the discretion to grant such other Awards which are exercisable for unvested shares of Common Stock. Should the Optionee's Continuous Service cease while holding such unvested shares, the Company shall have the right to repurchase, at the exercise price paid per share, any or all of those unvested shares. The terms upon which such repurchase right shall be exercisable (including the period and procedure for exercise and the appropriate vesting schedule for the purchased shares) shall be established by the Committee or the Board and set forth in the document evidencing such

repurchase right. Cash awards, as an element of or supplement to any other Award under the Plan, may also be granted pursuant to this Section 6(h).

7. Performance and Annual Incentive Awards.

(a) Performance Conditions. The right of a Participant to exercise or receive a grant or settlement of any Award, and the timing thereof, may be subject to such performance conditions as may be specified by the Committee or the Board. The Committee or the Board may use such business criteria and other measures of performance as it may deem appropriate in establishing any performance conditions, and may exercise its discretion to reduce the amounts payable under any Award subject to performance conditions, except as limited under Sections 7(b) and 7(c) hereof in the case of a Performance Award or Annual Incentive Award intended to qualify under Code Section 162(m). At such times as the Company is a Publicly Held Corporation, if and to the extent required under Code Section 162(m), any power or authority relating to a Performance Award or Annual Incentive Award intended to qualify under Code Section 162(m), shall be exercised by the Committee and not the Board.

(b) Performance Awards Granted to Designated Covered Employees. If and to the extent that the Committee determines that a Performance Award to be granted to an Eligible Person who is designated by the Committee as likely to be a Covered Employee should qualify as "performance-based compensation" for purposes of Code Section 162(m), the grant, exercise and/or settlement of such Performance Award shall be contingent upon achievement of pre-established performance goals and other terms set forth in this Section 7(b).

(i) Performance Goals Generally. The performance goals for such Performance Awards shall consist of one or more business criteria and a targeted level or levels of performance with respect to each of such criteria, as specified by the Committee consistent with this Section 7(b). Performance goals shall be objective and shall otherwise meet

the requirements of Code Section 162(m) and regulations thereunder including the requirement that the level or levels of performance targeted by the Committee result in the achievement of performance goals being "substantially uncertain." The Committee may determine that such Performance Awards shall be granted, exercised and/or settled upon achievement of any one performance goal or that two or more of the performance goals must be achieved as a condition to grant, exercise and/or settlement of such Performance Awards. Performance goals may differ for Performance Awards granted to any one Participant or to different Participants.

(ii) Business Criteria. One or more of the following business criteria for the Company, on a consolidated basis, and/or specified Related Entities or business units of the Company (except with respect to the total stockholder return and earnings per share criteria), shall be used exclusively by the Committee in establishing performance goals for such Performance Awards: (1) total stockholder return; (2) such total stockholder return as compared to total return (on a comparable basis) of a publicly available index such as, but not limited to, the Standard & Poor's 500 Stock Index or the S&P Specialty Retailer Index; (3)

net income; (4) pretax earnings; (5) earnings before interest expense, taxes, depreciation and amortization; (6) pretax operating earnings after interest expense and before bonuses, service fees, and extraordinary or special items; (7) operating margin; (8) earnings per share; (9) return on equity; (10) return on capital; (11) return on investment; (12) operating earnings; (13) working capital or inventory; and (14) ratio of debt to stockholders' equity. One or more of the foregoing business criteria shall also be exclusively used in establishing performance goals for Annual Incentive Awards granted to a Covered Employee under Section 7(c) hereof that are intended to qualify as "performanced-based compensation under Code Section 162(m).

(iii) Performance Period; Timing For Establishing Performance Goals. Achievement of performance goals in respect of such Performance Awards shall be measured over a performance period of up to ten years, as specified by the Committee. Performance goals shall be established not later than 90 days after the beginning of any performance period applicable to such Performance Awards, or at such other date as may be required or permitted for "performance-based compensation" under Code Section 162(m).

(iv) Performance Award Pool. The Committee may establish a Performance Award pool, which shall be an unfunded pool, for purposes of measuring Company performance in connection with Performance Awards. The amount of such Performance Award pool shall be based upon the achievement of a performance goal or goals based on one or more of the business criteria set forth in Section 7(b)(ii) hereof during the given performance period, as specified by the Committee in accordance with Section 7(b)(iii) hereof. The Committee may specify the amount of the Performance Award pool as a percentage of any of such business criteria, a percentage thereof in excess of a threshold amount, or as another amount which need not bear a strictly mathematical relationship to such business criteria.

(v) Settlement of Performance Awards; Other Terms. Settlement of such Performance Awards shall be in cash, Stock, other Awards or other property, in the discretion of the Committee. The Committee may, in its discretion, reduce the amount of a settlement otherwise to be made in connection with such Performance Awards. The Committee shall specify the circumstances in which such Performance Awards shall be paid or forfeited in the event of termination of Continuous Service

by the Participant prior to the end of a performance period or settlement of Performance Awards.

(c) Annual Incentive Awards Granted to Designated Covered Employees. The Committee may, within its discretion, grant one or more Annual Incentive Awards to any Eligible Person, subject to the terms and conditions set forth in this Section 7(c).

(vi) Annual Incentive Award Pool. The Committee may establish an Annual Incentive Award pool, which shall be an unfunded pool, for purposes of

measuring Company performance in connection with Annual Incentive Awards. In the case of Annual Incentive Awards intended to qualify as "performance-based compensation" for purposes of Code Section 162(m), the amount of such Annual Incentive Award pool shall be based upon the achievement of a performance goal or goals based on one or more of the business criteria set forth in Section 7(b)(ii) hereof during the given performance period, as specified by the Committee in accordance with Section 7(b)(iii) hereof. The Committee may specify the amount of the Annual Incentive Award pool as a percentage of any such business criteria, a percentage thereof in excess of a threshold amount, or as another amount which need not bear a strictly mathematical relationship to such business criteria.

(vii) Potential Annual Incentive Awards. Not later than the end of the 90th day of each fiscal year, or at such other date as may be required or permitted in the case of Awards intended to be "performance-based compensation" under Code Section 162(m), the Committee shall determine the Eligible Persons who will potentially receive Annual Incentive Awards, and the amounts potentially payable thereunder, for that fiscal year, either out of an Annual Incentive Award pool established by such date under Section 7(c)(i) hereof or as individual Annual Incentive Awards. In the case of individual Annual Incentive Awards intended to qualify under Code Section 162(m), the amount potentially payable shall be based upon the achievement of a performance goal or goals based on one or more of the business criteria set forth in Section 7(b)(ii) hereof in the given performance year, as specified by the Committee; in other cases, such amount shall be based on such criteria as shall be established by the Committee. In all cases, the maximum Annual Incentive Award of any Participant shall be subject to the limitation set forth in Section 5 hereof.

(viii) Payout of Annual Incentive Awards. After the end of each fiscal year, the Committee shall determine the amount, if any, of (A) the Annual Incentive Award pool, and the maximum amount of potential Annual Incentive Award payable to each Participant in the Annual Incentive Award pool, or (B) the amount of potential Annual Incentive Award otherwise payable to each Participant. The Committee may, in its discretion, determine that the amount payable to any Participant as an Annual Incentive Award shall be reduced from the amount of his or her potential Annual Incentive Award, including a determination to make no Award whatsoever. The Committee shall specify the circumstances in which an Annual Incentive Award shall be paid or forfeited in the event of termination of Continuous Service by the Participant prior to the end of a fiscal year or settlement of such Annual Incentive Award.

(d) Written Determinations. All determinations by the Committee as to the establishment of performance goals, the amount of any Performance Award pool or potential individual Performance Awards and as to the achievement of performance goals relating to Performance Awards under Section 7(b), and the amount of any Annual Incentive Award pool or potential individual Annual Incentive Awards and the amount of final Annual Incentive Awards

20

under Section 7(c), shall be made in writing in the case of any Award intended to qualify under Code Section 162(m). The Committee may not delegate any responsibility relating to such Performance Awards or Annual Incentive Awards if and to the extent required to comply with Code Section 162(m).

(e) Status of Section 7(b) and Section 7(c) Awards Under Code Section 162(m). It is the intent of the Company that Performance Awards and Annual Incentive Awards under Section 7(b) and 7(c) hereof granted to persons who are designated by the Committee as likely to be Covered Employees within the meaning of Code Section 162(m) and regulations thereunder shall, if so designated by the Committee, constitute "qualified performance-based compensation" within the meaning of Code Section 162(m) and regulations thereunder. Accordingly, the terms of Sections 7(b), (c), (d) and (e), including the definitions of Covered Employee and other terms used therein, shall be interpreted in a manner consistent with Code Section 162(m) and regulations thereunder. The foregoing notwithstanding, because the Committee cannot determine with certainty whether a given Participant will be a Covered Employee with respect to a fiscal year that has not yet been completed, the term Covered Employee as used herein shall mean only a person designated by the Committee, at the time of grant of Performance Awards or an Annual Incentive Award, as likely to be a Covered Employee with respect to that fiscal year. If any provision of the Plan or any agreement relating to such Performance Awards or Annual Incentive Awards does not comply or is inconsistent with the requirements of Code Section 162(m) or regulations thereunder, such provision shall be construed or deemed amended to the extent necessary to conform to such requirements.

8. Certain Provisions Applicable to Awards or Sales.

(a) Stand-Alone, Additional, Tandem, and Substitute Awards. Awards granted under the Plan may, in the discretion of the Committee or the Board, be granted either alone or in addition to, in tandem with, or in substitution or exchange for, any other Award or any award granted under another plan of the Company, any Related Entity, or any business entity to be acquired by the Company or a Related Entity, or any other right of a Participant to receive payment from the Company or any Related Entity. Such additional, tandem, and substitute or exchange Awards may be granted at any time. If an Award is granted in substitution or exchange for another Award or award, the Committee or the Board shall require the surrender of such other Award or award in consideration for the grant of the new Award. In addition, Awards may be granted in lieu of cash compensation, including in lieu of cash amounts payable under other plans of the Company or any Related Entity, in which the value of Stock subject to the Award is equivalent in value to the cash compensation (for example, Deferred Stock or Restricted Stock), or in which the exercise price, grant price or purchase price of the Award in the nature of a right that may be exercised is equal to the Fair Market Value of the underlying Stock minus the value of the cash compensation surrendered (for example, Options granted with an exercise price "discounted" by the amount of the cash compensation surrendered).

(b) Term of Awards. The term of each Award shall be for such period as may be determined by the Committee or the Board; provided that in no event shall the term of any Option or Stock Appreciation Right exceed a period of ten years (or such shorter term as may be required in respect of an Incentive Stock Option under Section 422 of the Code).

21

(c) Purchase Prices.

(i) In General. In the case of an Award under this Plan, other than an Option, which grants an Employee, Director, or Consultant of the Company the right to purchase Stock, the Board or the Committee shall have discretion to set the purchase price, provided that in no event shall the purchase price per share of Stock be less than 85% of the Fair Market Value of such share on the date of the Award or the date of the purchase, and in the case of an Award made to an Employee who owns or is deemed to own (by reason of the attribution rules applicable under Section 424(d) of the Code)

more than 10% of the combined voting power of all classes of Stock of the Company, the Parent Corporation or a Subsidiary, the purchase price of such Stock shall be no less than 100% of the Fair Market Value of the Stock on the date of such award or the date of the purchase.

(ii) Non-Applicability of Restrictions. The Purchase Price restrictions contained in Section 8(c)(i) applicable to Awards under this Plan, other than Options, which grant an Employee, Director, or Consultant of the Company the right to purchase Stock, shall be inoperative if (A) the offer and sale of the shares of Stock to be issued upon payment of the Exercise Price have been registered under a then currently effective registration statement under applicable federal or state securities laws, or (B) a determination is made by counsel for the Company that such Exercise Price restrictions are not required in the circumstances under applicable federal or state securities laws.

(d) Form and Timing of Payment Under Awards; Deferrals. Subject to the terms of the Plan and any applicable Award agreement, payments to be made by the Company or a Related Entity upon the exercise of an Option or other Award or settlement of an Award may be made in such forms as the Committee or the Board shall determine, including, without limitation, cash, other Awards or other property, and may be made in a single payment or transfer, in installments, or on a deferred basis. The settlement of any Award may be accelerated, and cash paid in lieu of Stock in connection with such settlement, in the discretion of the Committee or the Board or upon occurrence of one or more specified events (in addition to a Change in Control). Installment or deferred payments may be required by the Committee or the Board (subject to Section 10(e) of the Plan) or permitted at the election of the Participant on terms and conditions established by the Committee or the Board. Payments may include, without limitation, provisions for the payment or crediting of a reasonable interest rate on installment or deferred payments or the grant or crediting of Dividend Equivalents or other amounts in respect of installment or deferred payments denominated in Stock.

(e) Exemptions from Section 16(b) Liability. If and to the extent that the Company is or becomes a Publicly Held Corporation, it is the intent of the Company that this Plan comply in all respects with applicable provisions of Rule 16b-3 or Rule 16a-1(c)(3) to the extent necessary to ensure that neither the grant of any Awards to nor other transaction by a Participant who is subject to Section 16 of the Exchange Act is subject to liability under Section 16(b) thereof (except for transactions acknowledged in writing to be non-exempt by such

Participant). Accordingly, if any provision of this Plan or any Award agreement does not comply with the requirements of Rule 16b-3 or Rule 16a-1(c)(3) as then applicable to any such transaction, such provision will be construed or deemed amended to the extent necessary to conform to the applicable requirements of Rule 16b-3 or Rule 16a-1(c)(3) so that such Participant shall avoid liability under Section 16(b). In addition, the purchase price of any Award conferring a right to purchase Stock shall be not less than any specified percentage of the Fair Market Value of Stock at the date of grant of the Award then required in order to comply with Rule 16b-3.

9. Change in Control.

(a) Effect of "Change in Control." If and to the extent provided in the Award, in the event of a "Change in Control," as defined in Section 9(b):

(i) The Committee may, within its discretion, accelerate the vesting and exercisability of any Award carrying a right to exercise that was not previously vested and exercisable as of the time of the Change in Control, subject to applicable restrictions set forth in Section 10(a) hereof;

(ii) The Committee may, within its discretion, accelerate the exercisability of any limited Stock

Appreciation Rights (and other Stock Appreciation Rights if so provided by their terms) and provide for the settlement of such Stock Appreciation Rights for amounts, in cash, determined by reference to the Change in Control Price;

(iii) The Committee may, within its discretion, lapse the restrictions, deferral of settlement, and forfeiture conditions applicable to any other Award granted under the Plan and such Awards may be deemed fully vested as of the time of the Change in Control, except to the extent of any waiver by the Participant and subject to applicable restrictions set forth in Section 10(a) hereof; and

(iv) With respect to any such outstanding Award subject to achievement of performance goals and conditions under the Plan, the Committee may, within its discretion, deem such performance goals and other conditions as having been met as of the date of the Change in Control.

(b) Definition of "Change in Control. A "Change in Control" shall be deemed to have occurred upon:

(i) Approval by the shareholders of the Company of a reorganization, merger, consolidation or other form of corporate transaction or series of transactions, in each case, with respect to which persons who were the shareholders of the Company immediately prior to such reorganization, merger or consolidation or other transaction do not, immediately thereafter, own more than 50% of the combined voting power entitled to vote generally in the election of directors of the reorganized, merged or consolidated company's then outstanding

voting securities, or a liquidation or dissolution of the Company or the sale of all or substantially all of the assets of the Company (unless such reorganization, merger, consolidation or other corporate transaction, liquidation, dissolution or sale (any such event being referred to as a "Corporate Transaction") is subsequently abandoned);

(ii) Individuals who, as of the date on which the Award is granted, constitute the Board (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board, provided that any person becoming a director subsequent to the date on which the Award was granted whose election, or nomination for election by the Company's shareholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board (other than an election or nomination of an individual whose initial assumption of office is in connection with an actual or threatened election contest relating to the election of the Directors of the Company) shall be, for purposes of this Agreement, considered as though such person were a member of the Incumbent Board; or

(iii) the acquisition (other than from the Company) by any person, entity or "group", within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act, of more than 50% of either the then outstanding shares of the Company's Common Stock or the combined voting power of the Company's then outstanding voting securities entitled to vote generally in the election of directors (hereinafter referred to as the ownership of a "Controlling Interest") excluding, for this purpose, any acquisitions by (1) the Company or a Related Entity, (2) any person, entity or "group" that as of the date on which the Award is granted owns beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Securities Exchange Act) of a Controlling Interest or (3) any employee benefit plan of the Company or a Related Entity.

(c) Definition of "Change in Control Price." The "Change in Control Price" means an amount in cash equal to the higher of (i) the amount of cash and fair market value of property that is the highest price per share paid

(including extraordinary dividends) in any Corporate Transaction triggering the Change in Control under Section 9(b)(i) hereof or any liquidation of shares following a sale of substantially all of the assets of the Company, or (ii) the highest Fair Market Value per share at any time during the 60-day period preceding and the 60-day period following the Change in Control.

10. General Provisions.

(a) Compliance With Legal and Other Requirements. The Company may, to the extent deemed necessary or advisable by the Committee or the Board, postpone the issuance or delivery of Stock or payment of other benefits under any Award until completion of such registration or qualification of such Stock or other required action under any federal or state law, rule or regulation, listing or other required action with respect to any stock exchange or automated quotation system upon which the Stock or other Company securities are listed or

quoted, or compliance with any other obligation of the Company, as the Committee or the Board, may consider appropriate, and may require any Participant to make such representations, furnish such information and comply with or be subject to such other conditions as it may consider appropriate in connection with the issuance or delivery of Stock or payment of other benefits in compliance with applicable laws, rules, and regulations, listing requirements, or other obligations. The foregoing notwithstanding, in connection with a Change in Control, the Company shall take or cause to be taken no action, and shall undertake or permit to arise no legal or contractual obligation, that results or would result in any postponement of the issuance or delivery of Stock or payment of benefits under any Award or the imposition of any other conditions on such issuance, delivery or payment, to the extent that such postponement or other condition would represent a greater burden on a Participant than existed on the 90th day preceding the Change in Control.

(b) Limits on Transferability; Beneficiaries.

(i) General. Except as provided herein, a Participant may not assign, sell, transfer, or otherwise encumber or subject to any lien any Award or other right or interest granted under this Plan, in whole or in part, including any Award or right which constitutes a derivative security as generally defined in Rule 16a-1(c) under the Exchange Act, other than by will or by operation of the laws of descent and distribution, and such Awards or rights that may be exercisable shall be exercised during the lifetime of the Participant only by the Participant or his or her guardian or legal representative.

(ii) Permitted Transfer of Option. The Committee or Board, in its sole discretion, may permit the transfer of an Option (but not an Incentive Stock Option, or any other right to purchase Stock other than an Option) as follows: (A) by gift to a member of the Participant's Immediate Family or (B) by transfer by instrument to a trust providing that the Option is to be passed to beneficiaries upon death of the Optionee. For purposes of this Section 10(b)(ii), "Immediate Family" shall mean the Optionee's spouse (including a former spouse subject to terms of a domestic relations order); child, stepchild, grandchild, child-in-law; parent, stepparent, grandparent, parent-in-law; sibling and sibling-in-law, and shall include adoptive relationships. If a determination is made by counsel for the Company that the restrictions contained in this Section 10(b)(ii) are not required by applicable federal or state securities laws under the circumstances, then the Committee or Board, in its sole discretion, may permit the transfer of Awards (other than Incentive Stock Options and Stock Appreciation Rights in tandem therewith) to one or more Beneficiaries or other transferees during the lifetime of the Participant, which may be exercised by such transferees in accordance with the terms of such Award, but only if and to the extent permitted by the Committee or the Board pursuant to the express terms of an Award agreement (subject to any terms and conditions which the Committee or the Board may impose thereon, and further subject

to any prohibitions and restrictions on such transfers pursuant to Rule 16b-3). A Beneficiary, transferee, or other person claiming any rights under the Plan from or through any Participant shall be subject to all terms and

conditions of the Plan and any Award agreement applicable to such Participant, except as otherwise determined by the Committee or the Board, and to any additional terms and conditions deemed necessary or appropriate by the Committee or the Board.

(c) Adjustments.

(i) Adjustments to Awards. In the event that any dividend or other distribution (whether in the form of cash, Stock, or other property), recapitalization, forward or reverse split, reorganization, merger, consolidation, spin-off, combination, repurchase, share exchange, liquidation, dissolution or other similar corporate transaction or event affects the Stock and/or such other securities of the Company or any other issuer such that a substitution, exchange, or adjustment is determined by the Committee or the Board to be appropriate, then the Committee or the Board shall, in such manner as it may deem equitable, substitute, exchange, or adjust any or all of (A) the number and kind of shares of Stock which may be delivered in connection with Awards granted thereafter, (B) the number and kind of shares of Stock by which annual per-person Award limitations are measured under Section 5 hereof, (C) the number and kind of shares of Stock subject to or deliverable in respect of outstanding Awards, (E) the exercise price, grant price or purchase price relating to any Award and/or make provision for payment of cash or other property in respect of any outstanding Award, and (F) any other aspect of any Award that the Committee or the Board determines to be appropriate.

(ii) Adjustments in Case of Certain Corporate Transactions. In the event of a proposed sale of all or substantially all of the Company's assets or any reorganization, merger, consolidation, or other form of corporate transaction in which the Company does not survive, or in which the shares of Stock are exchanged for or converted into securities issued by another entity, then the successor or acquiring entity or an affiliate thereof may, with the consent of the Committee or the Board, assume each outstanding Option or substitute an equivalent option or right. If the successor or acquiring entity or an affiliate thereof, does not cause such an assumption or substitution, then each Option shall terminate upon the consummation of sale, merger, consolidation, or other corporate transaction. The Committee or the Board shall give written notice of any proposed transaction referred to in this Section 10(c)(ii) a reasonable period of time prior to the closing date for such transaction (which notice may be given either before or after the approval of such transaction), in order that Optionees may have a reasonable period of time prior to the closing date of such transaction within which to exercise any Options that are then exercisable (including any Options that may become exercisable upon the closing date of such transaction). An Optionee may condition his exercise of any Option upon the consummation of the transaction.

(iii) Other Adjustments. In addition, the Committee (and the Board if and only to the extent such authority is not required to be exercised by the Committee to comply with Code Section 162(m)) is authorized to make adjustments in the terms and conditions of, and the criteria included in, Awards (including Performance Awards and performance goals, and Annual Incentive Awards and any Annual Incentive Award pool or performance goals relating thereto) in recognition of unusual or nonrecurring events (including, without limitation, acquisitions and dispositions of businesses and assets) affecting the Company, any Related Entity or any business

unit, or the financial statements of the Company or any Related Entity, or in response to changes in applicable laws, regulations, accounting principles, tax rates and regulations or business conditions or in view of the Committee's assessment of the business strategy of the Company, any Related Entity or business unit thereof, performance of comparable organizations, economic and business conditions, personal performance of a Participant, and any other

circumstances deemed relevant; provided that no such adjustment shall be authorized or made if and to the extent that such authority or the making of such adjustment would cause Options, Stock Appreciation Rights, Performance Awards granted under Section 8(b) hereof or Annual Incentive Awards granted under Section 8(c) hereof to Participants designated by the Committee as Covered Employees and intended to qualify as "performance-based compensation" under Code Section 162(m) and the regulations thereunder to otherwise fail to qualify as "performance-based compensation" under Code Section 162(m) and regulations thereunder.

(d) Taxes. The Company and any Related Entity are authorized to withhold from any Award granted, any payment relating to an Award under the Plan, including from a distribution of Stock, or any payroll or other payment to a Participant, amounts of withholding and other taxes due or potentially payable in connection with any transaction involving an Award, and to take such other action as the Committee or the Board may deem advisable to enable the Company and Participants to satisfy obligations for the payment of withholding taxes and other tax obligations relating to any Award. This authority shall include authority to withhold or receive Stock or other property and to make cash payments in respect thereof in satisfaction of a Participant's tax obligations, either on a mandatory or elective basis in the discretion of the Committee.

(e) Changes to the Plan and Awards. The Board may amend, alter, suspend, discontinue or terminate the Plan, or the Committee's authority to grant Awards under the Plan, without the consent of stockholders or Participants, except that any amendment or alteration to the Plan shall be subject to the approval of the Company's stockholders not later than the annual meeting next following such Board action if such stockholder approval is required by any federal or state law or regulation (including, without limitation, Rule 16b-3 or Code Section 162(m)) or the rules of any stock exchange or automated quotation system on which the Stock may then be listed or quoted, and the Board may otherwise, in its discretion, determine to submit other such changes to the Plan to stockholders for approval; provided that, without the consent of an affected Participant, no such Board action may materially and adversely affect the rights of such Participant under any previously granted and outstanding Award. The Committee or the Board may waive any conditions or rights under, or amend, alter, suspend, discontinue or terminate any Award theretofore granted and any Award agreement relating thereto, except as otherwise provided in the Plan; provided that, without the consent of an affected Participant, no such Committee or the Board action may materially and adversely affect the rights of such Participant under such Award. Notwithstanding anything in the Plan to the contrary, if any right under this Plan would cause a transaction to be ineligible for pooling of interest accounting that would, but for the right hereunder, be eligible for such accounting treatment, the Committee or the Board may modify or adjust the right so that pooling of interest accounting shall be available, including the substitution of Stock having a Fair Market Value equal to the cash otherwise payable hereunder for the right which caused the transaction to be ineligible for pooling of interest accounting.

(f) Reporting of Financial Information. The Company shall provide to the recipient of any Award under this Plan, no less frequently than annually, the financial statements of the Company, until such time as a determination is made by counsel for the Company that such reports are not required by applicable federal or state securities laws under the circumstances.

(g) Limitation on Rights Conferred Under Plan. Neither the Plan nor any action taken hereunder shall be construed as (i) giving any Eligible Person or Participant the right to continue as an Eligible Person or Participant or in the employ of the Company or a Related Entity; (ii) interfering in any way with the right of the Company or a Related Entity to terminate any Eligible Person's or Participant's Continuous Service at any time, (iii) giving an Eligible Person or Participant any claim to be granted any Award under the Plan or to be treated uniformly with other Participants and Employees, or (iv) conferring on a Participant any of the rights of a stockholder of the Company unless and until the Participant is duly issued or transferred shares of Stock in accordance with the terms of an Award.

(h) Unfunded Status of Awards; Creation of Trusts. The Plan is intended to constitute an "unfunded" plan for incentive and deferred compensation. With respect to any payments not yet made to a Participant or

obligation to deliver Stock pursuant to an Award, nothing contained in the Plan or any Award shall give any such Participant any rights that are greater than those of a general creditor of the Company; provided that the Committee may authorize the creation of trusts and deposit therein cash, Stock, other Awards or other property, or make other arrangements to meet the Company's obligations under the Plan. Such trusts or other arrangements shall be consistent with the "unfunded" status of the Plan unless the Committee otherwise determines with the consent of each affected Participant. The trustee of such trusts may be authorized to dispose of trust assets and reinvest the proceeds in alternative investments, subject to such terms and conditions as the Committee or the Board may specify and in accordance with applicable law.

(i) Nonexclusivity of the Plan. Neither the adoption of the Plan by the Board nor its submission to the stockholders of the Company for approval shall be construed as creating any limitations on the power of the Board or a committee thereof to adopt such other incentive arrangements as it may deem desirable including incentive arrangements and awards which do not qualify under Code Section 162(m).

(j) Payments in the Event of Forfeitures; Fractional Shares. Unless otherwise determined by the Committee or the Board, in the event of a forfeiture of an Award with respect to which a Participant paid cash or other consideration, the Participant shall be repaid the amount of such cash or other consideration. No fractional shares of Stock shall be issued or delivered pursuant to the Plan or any Award. The Committee or the Board shall determine whether cash, other Awards or other property shall be issued or paid in lieu of such fractional shares or whether such fractional shares or any rights thereto shall be forfeited or otherwise eliminated.

(k) Governing Law. The validity, construction and effect of the Plan, any rules and regulations under the Plan, and any Award agreement shall be determined in

accordance with the laws of the State of California without giving effect to principles of conflicts of laws, and applicable federal law.

(l) Plan Effective Date and Stockholder Approval; Termination of Plan. The Plan shall become effective on the Effective Date, subject to subsequent approval within 12 months of its adoption by the Board by stockholders of the Company eligible to vote in the election of directors, by a vote sufficient to meet the requirements of Code Sections 162(m) (if applicable) and 422, Rule 16b-3 under the Exchange Act (if applicable), applicable NASDAQ requirements, and other laws, regulations, and obligations of the Company applicable to the Plan. Awards may be granted subject to stockholder approval, but may not be exercised or otherwise settled in the event stockholder approval is not obtained. The Plan shall terminate no later than 10 years from the date the Plan is adopted by the Board or 10 years from the date the Plan is approved by the Shareholders, whichever is earlier.

SYNAPTICS INCORPORATED

INCENTIVE STOCK OPTION AGREEMENT

1. Grant of Option. SYNAPTICS INCORPORATED (the "Company") hereby grants, as of _____, 20___ (the "Date of Grant"), to _____ (the "Optionee") an option (the "Option") to purchase up to _____ shares of the Company's Common Stock, $_____ par value per share (the "Shares"), at an exercise price per share equal to $_____ . The Option shall be subject to the terms and conditions set forth herein. The Option was issued pursuant to the Company's 2001 Executive Incentive Compensation Plan (the "Plan"), which is incorporated herein for all purposes. The Option is an Incentive Stock Option, and not a nonqualified stock option. The Optionee hereby acknowledges receipt of a copy of the Plan and agrees to be bound by all of the terms and conditions hereof and thereof and all applicable laws and regulations.

2. Definitions. Unless otherwise provided herein, terms used herein

that are defined in the Plan and not defined herein shall have the meanings attributed thereto in the Plan.

3. Exercise Schedule. Except as otherwise provided in Sections 6 or 12 of this Agreement, or in the Plan, the Option is exercisable in installments as provided below, which shall be cumulative. To the extent that the Option has become exercisable with respect to a percentage of Shares as provided below, the Option may thereafter be exercised by the Optionee, in whole or in part, at any time or from time to time prior to the expiration of the Option as provided herein. The following table indicates each date (the "Vesting Date") upon which the Optionee shall be entitled to exercise the Option with respect to the percentage of Shares granted as indicated beside the date, provided that the Continuous Service of the Optionee continues through and on the applicable Vesting Date:

Percentage of Shares	Vesting Date

Except as otherwise specifically provided herein, there shall be no proportionate or partial vesting in the periods prior to each Vesting Date, and all vesting shall occur only on the appropriate Vesting Date. Upon the termination of the Optionee's Continuous Service with the Company and its Subsidiaries, any unvested portion of the Option shall terminate and be null and void.

4. Method of Exercise. The vested portion of this Option shall be exercisable in whole or in part in accordance with the exercise schedule set forth in Section 3 hereof by written notice which shall state the election to exercise the Option, the number of Shares in respect of which the Option is being exercised, and such other representations and agreements as to the holder's investment intent with respect to such Shares as may be required by the Company pursuant to the provisions of the Plan. Such written notice shall be signed by the Optionee and

shall be delivered in person or by certified mail to the Secretary of the Company. The written notice shall be accompanied by payment of the exercise price. This Option shall be deemed to be exercised after both (a) receipt by the Company of such written notice accompanied by the exercise price and (b) arrangements that are satisfactory to the Committee or the Board in its sole discretion have been made for Optionee's payment to the Company of the amount, if any, that is necessary to be withheld in accordance with applicable Federal or state withholding requirements. No Shares will be issued pursuant to the Option unless and until such issuance and such exercise shall comply with all relevant provisions of applicable law, including the requirements of any stock exchange upon which the Shares then may be traded.

5. Method of Payment. Payment of the exercise price shall be by any of the following, or a combination thereof, at the election of the Optionee: (a) cash; (b) check; or (c) such other consideration or in such other manner as may be determined by the Board or the Committee in its absolute discretion.

6. Termination of Option.

(a) Any unexercised portion of the Option shall automatically and without notice terminate and become null and void at the time of the earliest to occur of the following:

(ix) three months after the date on which the Optionee's Continuous Service is terminated other than by reason of (A) Cause, which, solely for purposes of this Agreement, shall mean the termination of the Optionee's Continuous Service by reason of the Optionee's willful misconduct or gross negligence, (B) a mental or physical disability (within the meaning of Internal Revenue Code Section 22(e)) of the Optionee as determined by a medical doctor satisfactory to the Committee or the Board, or (C) the death of the Optionee;

(ii) immediately upon the termination of the Optionee's Continuous Service for Cause;

(iii) twelve months after the date on which the Optionee's Continuous Service is terminated by reason of a mental or physical disability (within the meaning of Section 22(e) of the Code) as determined by a medical doctor satisfactory to the Committee or the Board;

(iv) (A) twelve months after the date of termination of the

Optionee's Continuous Service by reason of the death of the Optionee, or, if later, (B) three months after the date on which the Optionee shall die if such death shall occur during the one year period specified in Subsection 6(a)(iii) hereof; or

(v) the tenth anniversary of the date as of which the Option is granted.

(b) To the extent not previously exercised, (i) the Option shall terminate immediately in the event of (1) the liquidation or dissolution of the Company, or (2) any reorganization, merger, consolidation or other form of corporate transaction in which the Company does not survive or the shares of Stock are converted into or exchanged for securities issued by another entity, unless the successor or acquiring entity, or an affiliate of such successor or acquiring entity, assumes the Option or substitutes an equivalent option or right pursuant to

Section 10(c) of the Plan, and (ii) the Committee or the Board in its sole discretion may by written notice ("cancellation notice") cancel, effective upon the consummation of any corporate transaction described in Subsection 9(b)(i) of the Plan in which the Company does survive, the Option (or portion thereof) that remains unexercised on such date. The Committee or the Board shall give written notice of any proposed transaction referred to in this Section 6(b) a reasonable period of time prior to the closing date for such transaction (which notice may be given either before or after approval of such transaction), in order that the Optionee may have a reasonable period of time prior to the closing date of such transaction within which to exercise the Option if and to the extent that it then is exercisable (including any portion of the Option that may become exercisable upon the closing date of such transaction). The Optionee may condition his exercise of the Option upon the consummation of a transaction referred to in this Section 6(b).

(c) The Company in its sole discretion may at any time during the Restricted Period, as defined in Section 7(a) hereof, by giving written notice to the Optionee, cancel the Option and instead pay to the Optionee, or his estate if the Optionee is deceased, an amount equal to the excess, if any, of (i) the fair market value, determined by the Board as of any date determined by the Board that is not more than one year prior to the date of the cancellation, of the shares of Stock with respect to which the Option otherwise would have been exercisable, over (ii) the Option Price for such shares. Any determination of fair market value by the Board shall be binding and conclusive on all parties unless shown to have been made in an arbitrary and capricious manner. The purchase price shall, at the option of the Company be payable in cash or in the form of the Company's promissory note, payable in up to three equal annual installments commencing twelve months after the acquisition by the Company (the "Acquisition Date") of the shares of Stock, together with interest on the unpaid balance thereof at the rate equal to the prime rate of interest as quoted in the Wall Street Journal for the Acquisition Date.

7. Restrictions While Stock is Not Registered.

(a) Restricted Shares. Any shares of Stock acquired upon exercise of the Option specified in Section 1 and (i) all shares of the Company's capital stock received as a dividend or other distribution upon such shares, and (ii) all shares of capital stock or other securities of the Company into which such shares may be changed or for which such shares shall be exchanged, whether through reorganization, recapitalization, stock split-ups or the like, shall be subject to the provisions of this Section 7 at all times, and only at those times, that shares of the Company's Common Stock are not registered under the Securities Exchange Act of 1934, as amended (such times during which the Stock is not so registered sometimes hereinafter being referred to as the "Restricted Period") and are during the Restricted Period hereinafter referred to as "Restricted Shares."

(b) No Sale or Pledge of Restricted Shares. Except as otherwise provided herein, Optionee agrees and covenants that during the Restricted Period he or she will not sell, pledge, encumber or otherwise transfer or dispose of, and will not permit to be sold, encumbered, attached or otherwise disposed of or transferred in any manner, either voluntarily or by operation of law (all hereinafter collectively referred to as "transfers"), all or any portion of the Restricted Shares or any interest therein except in

accordance with and subject to the terms of this Section 7.

(c) Voluntary Transfer Repurchase Option. If Optionee desires to effect a voluntary transfer of any of the Restricted Shares during the Restricted Period, Optionee shall first give written notice to the Company of such intent to transfer (the "Offer Notice") specifying (i) the number of the Restricted Shares (the "Offered Shares") and the date of the proposed transfer (which shall not be less than fifty (50) days after the giving of the Offer Notice), (ii) the name, address, and principal business of the proposed transferee (the "Transferee"), and (iii) the price and other terms and conditions of the proposed transfer of the Offered Shares to the Transferee. The Offer Notice by Optionee shall constitute an offer to sell all, but not less than all, of the Offered Shares, at the price and on the terms specified in such Offer Notice, to the Company and/or its designated purchaser. If the Company desires to accept Optionee's offer to sell, either for itself or on behalf of its designated purchaser, the Company shall signify such acceptance by written notice to Optionee within fifty (50) days following the giving of the Option Notice. Failing such acceptance, Optionee's offer shall lapse on the fifty-first day following the giving of the Option Notice. With such written acceptance, the Company shall designate a day not later than ten days following the date of giving its notice of acceptance on which the Company or its designated purchaser shall deliver the purchase price of the Offered Shares (in the same form as provided in the Offer Notice) and Optionee shall deliver to the Company or its designated Purchaser, as applicable, all certificates evidencing the Offered Shares endorsed in blank for transfer or with separate stock powers endorsed in blank for transfer. The Company may in its sole and absolute discretion, notify the Optionee within fifty-one days following the giving of the Option Notice that it does not permit the transfer of the Offered Shares to the Transferee pursuant to the terms and conditions set forth in the Option Notice in which event any such transfer or attempted transfer by the Optionee to the Transferee shall be null and void. Upon the lapse without acceptance by the Company of Optionee's offer to sell the Offered Shares, and unless the Company shall provide written notice to the Optionee within fifty-one days following the giving of the Option Notice that it will not permit the transfer of the Offered Shares to the Transferee pursuant to the terms and conditions set forth in the Option Notice, Optionee shall be free to transfer the Offered Shares not purchased by the Company or the designated purchaser to the Transferee (and no one else), for a price and on terms and conditions which are no more favorable to the Transferee than those set forth in the Offer Notice, for a period of thirty days thereafter, but after such period the restrictions of this Section 7 shall again apply to the Restricted Shares. The Offered Shares so transferred by Optionee to the Transferee shall continue to be subject to all of the terms and conditions of this Section 7 (including without limitation paragraph (f) of this Section 7) and the Company shall have the right to require, as a condition of such transfer, than the Transferee execute an agreement substantially in the form and content of the provisions of this Section 7, as well as any voting agreement and/or shareholders agreement required by the Company.

(d) Involuntary Transfer Repurchase Option. Whenever, during the Restricted Period, Optionee has any notice or knowledge of any attempted, pending, or consummated involuntary transfer or lien or charge upon any of the Restricted Shares, whether by operation of law or otherwise, Optionee shall give immediate written notice thereof to the Company. Whenever the Company has any other notice or knowledge of any such attempted, impending, or consummated involuntary transfer, lien, or charge, it shall give written notice thereof to the Optionee. In either case, Optionee agrees to disclose forthwith to the Company all pertinent information in his possession relating thereto. If during the Restricted Period any of the

Restricted Shares are subjected to any such involuntary transfer, lien, or charge, the Company and its designated purchaser shall at all times have the immediate and continuing option to purchase such of the Restricted Shares upon notice by the Company to Optionee or other record holder at a price and on terms determined according to Section 7(g) below, and any of the Restricted Shares so purchased by the Company or its designated purchaser shall in every case be free and clear of such transfer, lien, or charge.

(e) Excepted Transfers. The provisions of Sections 7(b) and (c) shall not apply to transfers by Optionee to his or her spouse, lineal descendants or trustee of trusts for their benefit, provided, however, that during the Restricted Period Optionee shall continue to be subject to all of the terms and provisions of this Section 7 with respect to any remaining present or future interest whatsoever he or she may have in the transferred Restricted Shares, and, further provided that during the Restricted Period any shares transferred pursuant to this subsection (e) shall continue to be treated as Restricted Shares and the transferee of any such Restricted Shares shall likewise be subject to all such terms and conditions of this Section 7 as though such transferee were a party hereto.

(f) Repurchase Option After Termination of Continuous Service. Anything set forth in this Agreement to the contrary notwithstanding, the Company shall have the right (but not the obligation) to purchase or designate a purchaser of all, but not less than all, of the Restricted Shares (including, without limitation, any Restricted Shares transferred pursuant to Section 7(e)) during the Restricted Period and after termination of the Optionee's Continuous Service for any reason, for the purchase price and on terms specified in Section 7(g) hereof. The Company may exercise its right to purchase or designate a purchaser of the Restricted Shares at any time (without any time limitation) after the Optionee's termination of Continuous Service and during the Restricted Period. If the Company chooses to exercise its right to purchase the Restricted Shares hereunder, the Company shall give its notice of its exercise of this right to Optionee or his or her legal representative specifying in such notice a date not later than ten (10) days following the date of giving such notice on which the Company or its designated purchaser shall deliver, or be prepared to deliver, the check or promissory note for the purchase price and Optionee or his or her legal representative shall deliver all stock certificates evidencing such Restricted Shares duly endorsed in blank for transfer or with separate stock powers endorsed in blank for transfer.

(g) Repurchase Price. For purposes of Sections 7(d) and (f) hereof, the per share purchase price of Restricted Shares shall be an amount equal to the fair market value of such share, determined by the Board as of any date determined by the Board that is not more than one year prior to the date of the event giving rise to the Company's right to purchase such Restricted Shares. Notwithstanding the foregoing, if the event that gives rise to the Company's right to repurchase the Restricted Shares is the termination of Optionee's Continuous Service by the Company for Cause, (as defined in Section 6(a)(i) hereof), the per share purchase price of the Restricted Shares shall be an amount equal to the lesser of (1) the fair market value of such share (as determined in accordance with the previous sentence), and (2) the original purchase price per share the Optionee paid for such Restricted Shares. Any determination of fair market value made by the Board shall be binding and conclusive on all parties unless shown to have been made in an arbitrary and capricious manner. The purchase price shall, at the option of the

Company, be payable in cash or in the form of the Company's promissory note payable in up to three equal annual installments commencing 12 months after the acquisition by the Company (the "Restricted Share Acquisition Date") of the Restricted Shares, together with interest on the unpaid balance thereof at the rate equal to the prime rate of interest as quoted in the Wall Street Journal on the Restricted Share Acquisition Date.

(h) Voting Rights. As a condition to Optionee's exercise of any Option pursuant to this Agreement, the Company may in its discretion require that Optionee enter into a voting agreement that grants the Company the voting rights for all shares of Stock acquired pursuant to the exercise of such Options, until the earlier of (i) 10 years from the date of exercise of the Option, or (ii) the end of the Restricted Period, such voting agreement to be in such form as the Company reasonably may request.

(i) Legends. The certificate or certificates representing any Shares acquired pursuant to the exercise of an Option prior to the last day of the Restricted Period shall bear the following legends (as well as any legends required by applicable state and federal corporate and securities laws):

(A) "THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933 (THE "ACT") AND MAY NOT BE OFFERED, SOLD OR OTHERWISE TRANSFERRED, PLEDGED OR

HYPOTHECATED UNLESS AND UNTIL REGISTERED UNDER THE ACT OR, IN THE OPINION OF COUNSEL IN FORM AND SUBSTANCE SATISFACTORY TO THE ISSUER OF THESE SECURITIES, SUCH OFFER, SALE OR TRANSFER, PLEDGE OR HYPOTHECATION IS IN COMPLIANCE THEREWITH."

(B) "THE SHARES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO CERTAIN RESTRICTIONS ON TRANSFER AND RIGHT OF FIRST REFUSAL AND REPURCHASE OPTIONS HELD BY THE ISSUER OR ITS ASSIGNEE(S) AS SET FORTH IN AN INCENTIVE STOCK OPTION AGREEMENT DATED _____, AS MAY BE AMENDED FROM TIME TO TIME, A COPY OF WHICH MAY BE OBTAINED AT THE PRINCIPAL OFFICE OF THE ISSUER. SUCH TRANSFER RESTRICTIONS, RIGHT OF FIRST REFUSAL AND REPURCHASE RIGHTS ARE BINDING ON TRANSFEREES OF THESE SHARES."

8. Transferability. The Option is not transferable otherwise than by will or the laws of descent and distribution, and during the lifetime of the Optionee the Option shall be exercisable only by the Optionee. The terms of this Option shall be binding upon the executors, administrators, heirs, successors and assigns of the Optionee.

9. No Rights of Stockholders. Neither the Optionee nor any personal representative (or beneficiary) shall be, or shall have any of the rights and privileges of, a stockholder of the

Company with respect to any shares of Stock purchasable or issuable upon the exercise of the Option, in whole or in part, prior to the date of exercise of the Option.

10. Market Stand-Off Agreement. In the event of an initial public offering of the Company's securities and upon request of the Company or the underwriters managing any underwritten offering of the Company's securities, the Optionee agrees not to sell, make any short sale of, loan, grant any option for the purchase of, or otherwise dispose of any shares of Stock (other than those included in the registration) acquired pursuant to the exercise of the Option, without the prior written consent of the Company or such underwriters, as the case may be, for such period of time (not to exceed 180 days) from the effective date of such registration as may be requested by the Company or such managing underwriters.

11. Optionee's Representations. In the event the Company's issuance of the shares of Stock purchasable pursuant to the exercise of this Option has not been registered under the Securities Act of 1933, as amended, at the time this Option is exercised, Optionee shall, if required by the Company, concurrently with the exercise of all or any portion of this Option, deliver to the Company his Investment Representation Statement in the form attached to this Agreement as Exhibit A or in such other form as the Company may request.

12. Acceleration of Exercisability of Option. This Option [shall] [shall not] become immediately fully exercisable in the event that, prior to the termination of the Option pursuant to Section 6 hereof, (a) there is a "Change in Control", as defined in Section 8(b) of the Plan, that occurs while the Optionee is employed by the Company or any of its subsidiaries, (b) the Committee or the Board exercises its discretion to provide a cancellation notice with respect to the Option pursuant to Section 6(b)(ii) hereof, or (c) the Option is terminated pursuant to Section 6(b)(i) hereof.

13. No Right to Continued Employment. Neither the Option nor this Agreement shall confer upon the Optionee any right to continued employment or service with the Company.

14. Law Governing. This Agreement shall be governed in accordance with and governed by the internal laws of the State of California.

15. Incentive Stock Option Treatment. The terms of this Option shall be interpreted in a manner consistent with the intent of the Company and the Optionee that the Option qualify as an Incentive Stock Option under Section 422 of the Code. If any provision of the Plan or this Agreement shall be impermissible in order for the Option to qualify as an Incentive Stock Option, then the Option shall be construed and enforced as if such provision had never been included in the Plan or the Option. If and to the extent that the number of

Options granted pursuant to this Agreement exceeds the limitations contained in Section 4(b) of the Plan on the value of Shares with respect to which this Option may qualify as an Incentive Stock Option, this Option shall be a Non-Qualified Stock Option.

16. Interpretation / Provisions of Plan Control. This Agreement is subject to all the terms, conditions and provisions of the Plan, including, without limitation, the amendment provisions thereof, and to such rules, regulations and interpretations relating to the Plan adopted by the Committee or the Board as may be in effect from time to time. If and to the extent that this

Agreement conflicts or is inconsistent with the terms, conditions and provisions of the Plan, the Plan shall control, and this Agreement shall be deemed to be modified accordingly. The Optionee accepts the Option subject to all the terms and provisions of the Plan and this Agreement. The undersigned Optionee hereby accepts as binding, conclusive and final all decisions or interpretations of the Committee or the Board upon any questions arising under the Plan and this Agreement.

17. Notices. Any notice under this Agreement shall be in writing and shall be deemed to have been duly given when delivered personally or when deposited in the United States mail, registered, postage prepaid, and addressed, in the case of the Company, to the Company's Secretary at:

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or if the Company should move its principal office, to such principal office, and, in the case of the Optionee, to the Optionee's last permanent address as shown on the Company's records, subject to the right of either party to designate some other address at any time hereafter in a notice satisfying the requirements of this Section.

18. Tax Consequences. Set forth below is a brief summary as of the date of this Option of some of the federal tax consequences of exercise of this Option and disposition of the Shares. THIS SUMMARY IS NECESSARILY INCOMPLETE, AND THE TAX LAWS AND REGULATIONS ARE SUBJECT TO CHANGE. OPTIONEE SHOULD CONSULT A TAX ADVISER BEFORE EXERCISING THIS OPTION OR DISPOSING OF THE SHARES.

(a) Exercise of Option. There will be no regular federal income tax liability upon the exercise of the Option, although the excess, if any, of the fair market value of the Shares on the date of exercise over the exercise price will be treated as an adjustment to the alternative minimum tax for federal tax purposes and may subject the Optionee to the alternative minimum tax in the year of exercise.

(b) Disposition of Shares. If Shares transferred pursuant to the Option are held for at least one year after exercise and are disposed of at least two years after the date of grant, any gain realized on disposition of the Shares will also be treated as long-term capital gain for federal income tax purposes. If Shares purchased under an Option are disposed of within such one-year period or within two years after the Date of Grant, any gain realized on such disposition will be treated as compensation income (taxable at ordinary income rates) to the extent of the difference between the exercise price and the lesser of (1) the fair market value of the Shares on the date of exercise, or (2) the sale price of the Shares.

(c) Notice of Disqualifying Disposition of Option Shares. If Optionee sells or otherwise disposes of any of the Shares acquired pursuant to the Option on or before the later of (1) the date two years after the date of grant, (2) the date one year after the date of exercise, the Optionee shall immediately notify the Company in writing of such disposition. Optionee agrees

that Optionee may be subject to the income tax withholding by the Company on the compensation income recognized by the Optionee from the early disposition by

payment in cash or out of the current earnings paid to the Optionee.

If and to the extent that the number of Options granted hereunder exceeds the limitations contained in Section 4(b) of the Plan on the value of Shares with respect to which this Option may qualify as an Incentive Stock Option, this Option shall be a Non-Qualified Stock Option. The holder of a Non-Qualified Stock Option will be treated as having received compensation income (taxable at ordinary income tax rates) at the time the Option is exercised equal to the excess, if any, of the fair market value of the shares of Stock on the date of exercise over the exercise price. If the shares of Stock transferred pursuant to the Non-Qualified Stock Option are held for at least one year after the Option is exercised, any gain realized on disposition of the shares of Stock will be treated as long-term capital gain for federal income tax purposes.

The foregoing discussion assumes that, and only is applicable if, the fair market value of the Shares as of the date on which the Option is granted is not less than the exercise price. The Company believes that it has made a good faith effort to determine the fair market value of the Shares and does not believe that the exercise price is less than the fair market value of the Shares on the Date of Grant. No assurances can be given, however, that the Internal Revenue Service would not take a contrary position, or that the Internal Revenue Service would not treat the Option as an Incentive Stock Option for some other reason. If the exercise price is determined to be less than the fair market value of a Share on the Date of Grant, then the Option may be taxable as a Non-Qualified Stock Option. It is also possible that if the fair market value is determined to be significantly greater than the exercise price, the Internal Revenue Service may take the position that the Option is not in effect a stock option but should be treated as a restricted stock for tax purposes. The Optionee should consult with his or her own tax advisors as to whether any action should be taken to minimize these risks.

IN WITNESS WHEREOF, the undersigned have executed this Agreement as of the _____ day of _____, 20____.

COMPANY:

SYNAPTICS INCORPORATED, A
CALIFORNIA CORPORATION

By: _____

Name:
Title:

Optionee acknowledges receipt of a copy of the Plan and represents that he or she is familiar with the terms and provisions thereof, and hereby accepts this Option subject to all of the terms and provisions thereof. Optionee has reviewed the Plan and this Option in their entirety, has had an opportunity to obtain the advice of counsel prior to executing this Option, and fully understands all provisions of the Option.

Dated: _____

OPTIONEE:

By: _____

Name:

EXHIBIT A

INVESTMENT REPRESENTATION STATEMENT

PURCHASER:

COMPANY:

SECURITY: COMMON STOCK

AMOUNT:

DATE:

In connection with the purchase of the above-listed Securities, I, the Purchaser, represent to the Company the following:

(a) I am aware of the Company's business affairs and financial condition, and have acquired sufficient information about the Company to reach an informed and knowledgeable decision to acquire the Securities. I am purchasing these Securities for my own account for investment purposes only and not with a view to, or for the resale in connection with, any "distribution" thereof for purposes of the Securities Act of 1933, as amended (the "Securities Act").

(b) I understand that the Company's issuance of the Securities has not been registered under the Securities Act in reliance upon a specific exemption therefrom, which exemption depends upon, among other things, the bona fide nature of my investment intent as expressed herein. In this connection, I understand that, in the view of the Securities and Exchange Commission (the "SEC"), the statutory basis for such exemption may be unavailable if my representation was predicated solely upon a present intention to hold these Securities for the minimum capital gains period specified under tax statutes, for a deferred sale, for or until an increase or decrease in the market price of the Securities, or for a period of one year or any other fixed period in the future.

(c) I further understand that the Securities must be held indefinitely unless the transfer is subsequently registered under the Securities Act or unless an exemption from registration is otherwise available. Moreover, I understand that the Company is under no obligation to register any transfer of the Securities. In addition, I understand that the certificate evidencing the Securities will be imprinted with a legend which prohibits the transfer of the Securities unless registered or such registration is not required in the opinion of counsel for the Company.

(d) I am familiar with the provisions of Rule 701 and Rule 144, each promulgated under the Securities Act, which, in substance, permit limited public resale of "restricted securities" acquired, directly or indirectly, from the issuer thereof, in a non-public offering subject to the satisfaction of certain conditions. Rule 701 provides that if the issuer qualifies under Rule 701 at the time of issuance of the Securities, such issuance will be exempt from

registration under the Securities Act. In the event the Company later becomes subject to the reporting requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, ninety (90) days thereafter the securities exempt under Rule 701 may be resold, subject to the satisfaction of certain of the conditions specified by Rule 144, including among other things: (1) the sale being made through a broker in an unsolicited "broker's transaction" or in transactions directly with a market maker (as said term is defined under the Securities Exchange Act of 1934); and, in the case of an affiliate, (2) the availability of certain public information about the Company, and the amount of securities being sold during any three month period not exceeding the limitations specified in Rule 144(e), if applicable. Notwithstanding this paragraph (d), I acknowledge and agree to the restrictions set forth in paragraph (e) hereof.

In the event that the Company does not qualify under Rule 701 at the time of issuance of the Securities, then the Securities may be resold in certain limited circumstances subject to the provisions of Rule 144, which requires among other things: (1) the availability of certain public information about the Company, (2) the resale occurring not less than one year after the party has purchased, and made full payment for, within the meaning of Rule 144, the securities to be sold; and, in the case of an affiliate, or of a non-affiliate who has held the securities less than two years, (3) the sale being made through a broker in an unsolicited "broker's transaction" or in transactions directly with a market maker (as said term is defined under the Securities Exchange Act of 1934) and the amount of securities being sold during any three month period not exceeding the specified limitations stated therein, if applicable.

(e) I further understand that in the event all of the applicable requirements of Rule 144 or Rule 701 are not satisfied, registration under the Securities Act, compliance with Regulation A, or some other registration exemption will be required; and that, notwithstanding the fact that Rule 144 and Rule 701 are not exclusive, the Staff of the SEC has expressed its opinion that persons proposing to sell private placement securities other than in a registered offering and otherwise than pursuant to Rule 144 or Rule 701 will have a substantial burden of proof in establishing that an exemption from registration is available for such offers or sales, and that such persons and their respective brokers who participate in such transactions do so at their own risk.

Signature of Purchaser:

_____

Date: _____

41

SYNAPTICS INCORPORATED

NON-QUALIFIED STOCK OPTION AGREEMENT

1. Grant of Option. SYNAPTICS INCORPORATED (the "Company") hereby grants, as of the _____ day of _____, 20____ ("Date of Grant"), to _____ (the "Optionee") an option (the "Option") to purchase up to _____ shares of the Company's Common Stock, $_____ par value per share (the "Shares"), at an exercise price per share equal to $_____. The Option shall be subject to the terms and conditions set forth herein. The Option was issued pursuant to the Company's 2001 Incentive Compensation Plan (the "Plan"), which is incorporated herein for all purposes. The Option is a nonqualified stock option, and not an Incentive Stock Option. The Optionee hereby acknowledges receipt of a copy of the Plan and agrees to be bound by all of the terms and conditions hereof and thereof and all applicable laws and regulations.

2. Definitions. Unless otherwise provided herein, terms used herein that are defined in the Plan and not defined herein shall have the meanings attributed thereto in the Plan.

3. Exercise Schedule. Except as otherwise provided in Sections 6 or 12 of this Agreement, or in the Plan, the Option is exercisable in installments as provided below, which shall be cumulative. To the extent that the Option has become exercisable with respect to a percentage of Shares as provided below, the Option may thereafter be exercised by the Optionee, in whole or in part, at any time or from time to time prior to the expiration of the Option as provided herein. The following table indicates each date (the "Vesting Date") upon which the Optionee shall be entitled to exercise the Option with respect to the percentage of Shares granted as indicated beside the date, provided that the Continuous Service of the Optionee continues through and on the applicable Vesting Date:

Percentage of Shares	Vesting Date

Except as otherwise specifically provided herein, there shall be no proportionate or partial vesting in the periods prior to each Vesting Date, and all vesting shall occur only on the appropriate Vesting Date. Upon the termination of an Optionee's Continuous Service, any unvested portion of the Option shall terminate and be null and void.

4. Method of Exercise. The vested portion of this Option shall be exercisable in whole or in part in accordance with the exercise schedule set forth in Section 3 hereof by written notice which shall state the election to exercise the Option, the number of Shares in respect of which the Option is being exercised, and such other representations and agreements as to the holder's investment intent with respect to such Shares as may be required by the Company pursuant to the provisions of the Plan. Such written notice shall be signed by the Optionee and shall be delivered in person or by certified mail to

the Secretary of the Company. The written

42
notice shall be accompanied by payment of the exercise price. This Option shall be deemed to be exercised after both (a) receipt by the Company of such written notice accompanied by the exercise price and (b) arrangements that are satisfactory to the Committee or the Board in its sole discretion have been made for Optionee's payment to the Company of the amount that is necessary to be withheld in accordance with applicable Federal or state withholding requirements. No Shares will be issued pursuant to the Option unless and until such issuance and such exercise shall comply with all relevant provisions of applicable law, including the requirements of any stock exchange upon which the Shares then may be traded.

5. Method of Payment. Payment of the exercise price shall be by any of the following, or a combination thereof, at the election of the Optionee: (a) cash; (b) check; or (c) such other consideration or in such other manner as may be determined by the Board or the Committee in its absolute discretion.

6. Termination of Option.

(a) Any unexercised portion of the Option shall automatically and without notice terminate and become null and void at the time of the earliest to occur of:

(i) three months after the date on which the Optionee's Continuous Service is terminated other than by reason of (A) Cause, which, solely for purposes of this Plan, shall mean the termination of the Optionee's Continuous Service by reason of the Optionee's willful misconduct or gross negligence, (B) a mental or physical disability (within the meaning of Internal Revenue Code Section 22(e)) of the Optionee as determined by a medical doctor satisfactory to the Committee or the Board, or (C) the death of the Optionee;

(ii) immediately upon the termination of the Optionee's Continuous Service for Cause;

(iii) twelve months after the date on which the Optionee's Continuous Service is terminated by reason of a mental or physical disability (within the meaning of Section 22(e) of the Code) as determined by a medical doctor satisfactory to the Committee or the Board;

(iv) (A) twelve months after the date of termination of the Optionee's Continuous Service by reason of the death of the Optionee, or , if later, (B) three months after the date on which the Optionee shall die if such death shall occur during the one year period specified in Subsection 6(a)(iii) hereof; or

(v) the tenth anniversary of the date as of which the Option is granted.

(b) To the extent not previously exercised, (i) the Option shall terminate immediately in the event of (1) the liquidation or dissolution of the Company, or (2) any reorganization, merger, consolidation or other form of corporate transaction in which the Company does not survive or the shares of Stock are converted into or exchanged for securities issued by another entity, unless the successor or acquiring entity, or an affiliate of such successor or acquiring entity, assumes the Option or substitutes an equivalent option or right pursuant to Section 10(c) of the Plan, and (ii) the Committee or the Board in its sole discretion may by

43
written notice ("cancellation notice") cancel, effective upon the consummation of any corporate transaction described in Subsection 9(b)(i) of the Plan in which the Company does survive, the Option (or portion thereof) that remains unexercised on such date. The Committee or the Board shall give written notice of any proposed transaction referred to in this Section 6(b) a reasonable period of time prior to the closing date for such transaction (which notice may be given either before or after approval of such transaction), in order that the Optionee may have a reasonable period of time prior to the closing date of such transaction within which to exercise the Option if and to the extent that it then is exercisable (including any portion of the Option that may become exercisable upon the closing date of such transaction). The Optionee may

condition his exercise of the Option upon the consummation of a transaction referred to in this Section 6(b).

(c) The Company in its sole discretion may at any time during the Restricted Period, as defined in Section 7(a) hereof, by giving written notice to the Optionee, cancel the Option and instead pay to the Optionee, or his estate if the Optionee is deceased, an amount equal to the excess, if any, of (i) the fair market value, determined by the Board as of any date determined by the Board that is not more than one year prior to the date of the cancellation, of the shares of Stock with respect to which the Option otherwise would have been exercisable, over (ii) the Option Price for such shares. Any determination of fair market value made by the Board shall be binding and conclusive on all parties unless shown to have been made in an arbitrary and capricious manner. The purchase price shall, at the option of the Company, be payable in cash or in the form of the Company's promissory note payable in up to 3 equal annual installments commencing 12 months after the acquisition by the Company (the "Acquisition Date") of the shares of Stock, together with interest on the unpaid balance thereof at the rate equal to the prime rate of interest quoted in the Wall Street Journal for the Acquisition Date.

7. Restrictions While Stock is Not Registered.

(a) Restricted Shares. Any shares of Stock acquired upon exercise of the Option specified in Section 1 and (i) all shares of the Company's capital stock received as a dividend or other distribution upon such shares, and (ii) all shares of capital stock or other securities of the Company into which such shares may be changed or for which such shares shall be exchanged, whether through reorganization, recapitalization, stock split-ups or the like, shall be subject to the provisions of this Section 7 at all times, and only at those times, that shares of the Company's Common Stock are not registered under the Securities Exchange Act of 1934, as amended (such times during which the Stock is not so registered sometimes hereinafter being referred to as the "Restricted Period") and are during the Restricted Period hereinafter referred to as "Restricted Shares."

(b) No Sale or Pledge of Restricted Shares. Except as otherwise provided herein, Optionee agrees and covenants that during the Restricted Period he or she will not sell, pledge, encumber or otherwise transfer or dispose of, and will not permit to be sold, encumbered, attached or otherwise disposed of or transferred in any manner, either voluntarily or by operation of law (all hereinafter collectively referred to as "transfers"), all or any portion of the Restricted Shares or any interest therein except in accordance with and subject to the terms of this Section 7.

(c) Voluntary Transfer Repurchase Option. If Optionee desires to effect a voluntary transfer of any of the Restricted Shares during the Restricted Period, Optionee shall first give written notice to the Company of such intent to transfer (the "Offer Notice") specifying (i) the number of the Restricted Shares (the "Offered Shares") and the date of the proposed transfer (which shall not be less than fifty (50) days after the giving of the Offer Notice), (ii) the name, address, and principal business of the proposed transferee (the "Transferee"), and (iii) the price and other terms and conditions of the proposed transfer of the Offered Shares to the Transferee. The Offer Notice by Optionee shall constitute an offer to sell all, but not less than all, of the Offered Shares, at the price and on the terms specified in such Offer Notice, to the Company and/or its designated purchaser. If the Company desires to accept Optionee's offer to sell, either for itself or on behalf of its designated purchaser, the Company shall signify such acceptance by written notice to Optionee within fifty (50) days following the giving of the Option Notice. Failing such acceptance, Optionee's offer shall lapse on the fifty-first day following the giving of the Option Notice. With such written acceptance, the Company shall designate a day not later than ten days following the date of giving its notice of acceptance on which the Company or its designated purchaser shall deliver the purchase price of the Offered Shares (in the same form as provided in the Offer Notice) and Optionee shall deliver to the Company or its designated Purchaser, as applicable, all certificates evidencing the Offered Shares endorsed in blank for transfer or with separate stock powers endorsed in blank for transfer. The Company may in its sole and absolute discretion, notify the Optionee within fifty-one days following the giving of the Option Notice that it does not permit the transfer of the Offered Shares to the Transferee pursuant to the terms and conditions set forth in the Option Notice in which

event any such transfer or attempted transfer by the Optionee to the Transferee shall be null and void. Upon the lapse without acceptance by the Company of Optionee's offer to sell the Offered Shares, and unless the Company shall provide written notice to the Optionee within fifty-one days following the giving of the Option Notice that it will not permit the transfer of the Offered Shares to the Transferee pursuant to the terms and conditions set forth in the Option Notice, Optionee shall be free to transfer the Offered Shares not purchased by the Company or the designated purchaser to the Transferee (and no one else), for a price and on terms and conditions which are no more favorable to the Transferee than those set forth in the Offer Notice, for a period of thirty days thereafter, but after such period the restrictions of this Section 7 shall again apply to the Restricted Shares. The Offered Shares so transferred by Optionee to the Transferee shall continue to be subject to all of the terms and conditions of this Section 7 (including without limitation paragraph (f) of this Section 7) and the Company shall have the right to require, as a condition of such transfer, that the Transferee execute an agreement substantially in the form and content of the provisions of this Section 7, as well as any voting agreement and/or shareholders agreement required by the Company.

(d) Involuntary Transfer Repurchase Option. Whenever, during the Restricted Period, Optionee has any notice or knowledge of any attempted, pending, or consummated involuntary transfer or lien or charge upon any of the Restricted Shares, whether by operation of law or otherwise, Optionee shall give immediate written notice thereof to the Company. Whenever the Company has any other notice or knowledge of any such attempted, impending, or consummated involuntary transfer, lien, or charge, it shall give written notice thereof to the Optionee. In either case, Optionee agrees to disclose forthwith to the Company all pertinent information in his possession relating thereto. If during the Restricted Period any of the

Restricted Shares are subjected to any such involuntary transfer, lien, or charge, the Company and its designated purchaser shall at all times have the immediate and continuing option to purchase such of the Restricted Shares upon notice by the Company to Optionee or other record holder at a price and on terms determined according to Section 7(g) below, and any of the Restricted Shares so purchased by the Company or its designated purchaser shall in every case be free and clear of such transfer, lien, or charge.

(e) Excepted Transfers. The provisions of Sections 7(b) and (c) shall not apply to transfers by Optionee to his or her spouse, lineal descendants or trustee of trusts for their benefit, provided, however, that during the Restricted Period Optionee shall continue to be subject to all of the terms and provisions of this Section 7 with respect to any remaining present or future interest whatsoever he or she may have in the transferred Restricted Shares, and, further provided that during the Restricted Period any shares transferred pursuant to this subsection (e) shall continue to be treated as Restricted Shares and the transferee of any such Restricted Shares shall likewise be subject to all such terms and conditions of this Section 7 as though such transferee were a party hereto.

(f) Repurchase Option After Termination of Continuous Service. Anything set forth in this Agreement to the contrary notwithstanding, the Company shall have the right (but not the obligation) to purchase or designate a purchaser of all, but not less than all, of the Restricted Shares (including, without limitation, any Restricted Shares transferred pursuant to Section 7(e)) during the Restricted Period and after termination of the Optionee's Continuous Service for any reason, for the purchase price and on terms specified in Section 7(g) hereof. The Company may exercise its right to purchase or designate a purchaser of the Restricted Shares at any time (without any time limitation) after the Optionee's termination of Continuous Service and during the Restricted Period. If the Company chooses to exercise its right to purchase the Restricted Shares hereunder, the Company shall give its notice of its exercise of this right to Optionee or his or her legal representative specifying in such notice a date not later than ten (10) days following the date of giving such notice on which the Company or its designated purchaser shall deliver, or be prepared to deliver, the check or promissory note for the purchase price and Optionee or his or her legal representative shall deliver all stock certificates evidencing such Restricted Shares duly endorsed in blank for transfer or with separate stock powers endorsed in blank for transfer.

(g) Repurchase Price. For purposes of Sections 7(d) and (f)

hereof, the per share purchase price of Restricted Shares shall be an amount equal to the fair market value of such share, determined by the Board as of any date determined by the Board that is not more than one year prior to the date of the event giving rise to the Company's right to purchase such Restricted Shares. Notwithstanding the foregoing, if the event that gives rise to the Company's right to repurchase the Restricted Shares is the termination of the Optionee's Continuous Service by the Company for Cause, (as defined in Section 6(a)(i) hereof), the per share purchase price of the Restricted Shares shall be an amount equal to the lesser of (1) the fair market value of such share (as determined in accordance with the previous sentence), and (2) the original purchase price per share the Optionee paid for such Restricted Shares. Any determination of fair market value made by the Board shall be binding and conclusive on all parties unless shown to have been made in an arbitrary and capricious manner. The purchase price shall, at the option of the

Company, be payable in cash or in the form of the Company's promissory note payable in up to 3 equal annual installments commencing 12 months after the (the "Restricted Share Acquisition Date") of the Restricted Shares, together with interest on the unpaid balance thereof at the rate equal to the prime rate of interest quoted in the Wall Street Journal for the Restricted Share Acquisition Date.

(h) Voting Rights. As a condition to Optionee's exercise of any Option pursuant to this Agreement, the Company may in its discretion require that Optionee enter into a voting agreement that grants the Company the voting rights for all shares of Stock acquired pursuant to the exercise of such Options, until the earlier of (i) 10 years from the date of exercise of the Option, or (ii) the end of the Restricted Period, such voting agreement to be in such form as the Company reasonably may request.

(i) Legends. The certificate or certificates representing any Shares acquired pursuant to the exercise of an Option prior to the last day of the Restricted Period shall bear the following legends (as well as any legends required by applicable state and federal corporate and securities laws):

> (A) "THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933 (THE "ACT") AND MAY NOT BE OFFERED, SOLD OR OTHERWISE TRANSFERRED, PLEDGED OR HYPOTHECATED UNLESS AND UNTIL REGISTERED UNDER THE ACT OR, IN THE OPINION OF COUNSEL IN FORM AND SUBSTANCE SATISFACTORY TO THE ISSUER OF THESE SECURITIES, SUCH OFFER, SALE OR TRANSFER, PLEDGE OR HYPOTHECATION IS IN COMPLIANCE THEREWITH."
>
> (B) "THE SHARES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO CERTAIN RESTRICTIONS ON TRANSFER, RIGHT OF FIRST REFUSAL, AND REPURCHASE OPTIONS HELD BY THE ISSUER OR ITS ASSIGNEE(S) AS SET FORTH IN A STOCK OPTION AGREEMENT DATED _____, AS MAY BE AMENDED FROM TIME TO TIME, A COPY OF WHICH MAY BE OBTAINED AT THE PRINCIPAL OFFICE OF THE ISSUER. SUCH TRANSFER RESTRICTIONS, RIGHT OF FIRST REFUSAL AND REPURCHASE RIGHTS ARE BINDING ON TRANSFEREES OF THESE SHARES."

8. Transferability

(a) General. Except as provided herein, a Participant may not assign, sell, transfer, or otherwise encumber or subject to any lien any Award or other right or interest granted under this Plan, in whole or in part, including any Award or right which constitutes a derivative security as generally defined in Rule 16a-1(c) under the Exchange Act, other than by will or by operation of the laws of descent and distribution, and such Awards or rights that may

be exercisable shall be exercised during the lifetime of the Participant only by the Participant or his or her guardian or legal representative.

(b) Permitted Transfer of Option. The Committee or Board, in its sole discretion, may permit the transfer of an Option granted under this

Agreement as follows: (A) by gift to a member of the Participant's Immediate Family or (B) by transfer by instrument to a trust providing that the Option is to be passed to beneficiaries upon death of the Optionee. For purposes of this Section 8(b), "Immediate Family" shall mean the Optionee's spouse (including a former spouse subject to terms of a domestic relations order); child, stepchild, grandchild, child-in-law; parent, stepparent, grandparent, parent-in-law; sibling and sibling-in-law, and shall include adoptive relationships. If a determination is made by counsel for the Company that the restrictions contained in this Section 8(b) are not required by applicable federal or state securities laws under the circumstances, then the Committee or Board, in its sole discretion, may permit the transfer of Options granted under this Agreement to one or more Beneficiaries or other transferees during the lifetime of the Participant, which may be exercised by such transferees in accordance with the terms of this Agreement, but only if and to the extent permitted by the Committee or the Board pursuant to the express terms of this Agreement (subject to any terms and conditions which the Committee or the Board may impose thereon, and further subject to any prohibitions and restrictions on such transfers pursuant to Rule 16b-3). A Beneficiary, transferee, or other person claiming any rights under the Plan from or through any Participant shall be subject to all terms and conditions of the Plan and any Award agreement applicable to such Participant, except as otherwise determined by the Committee or the Board, and to any additional terms and conditions deemed necessary or appropriate by the Committee or the Board.

9. Acceleration of Exercisability of Option. This Option [shall] [shall not] become immediately fully exercisable in the event that, prior to the termination of the Option pursuant to Section 6 hereof, (a) there is a "Change in Control", as defined in Section 8(b) of the Plan, that occurs while the Optionee is employed by the Company or any of its subsidiaries, (b) the Committee or the Board exercises its discretion to provide a cancellation notice with respect to the Option pursuant to Section 6(b)(ii) hereof, or (c) the Option is terminated pursuant to Section 6(b)(i) hereof.

10. No Rights of Stockholders. Neither the Optionee nor any personal representative (or beneficiary) shall be, or shall have any of the rights and privileges of, a stockholder of the Company with respect to any shares of Stock purchasable or issuable upon the exercise of the Option, in whole or in part, prior to the date of exercise of the Option.

11. Market Stand-Off Agreement. In the event of an initial public offering of the Company's securities and upon request of the Company or the underwriters managing any underwritten offering of the Company's securities, the Optionee agrees not to sell, make any short sale of, loan, grant any option for the purchase of, or otherwise dispose of any shares of Stock (other than those included in the registration) acquired pursuant to the exercise of the Option, without the prior written consent of the Company or such underwriters, as the case may be, for such period of time (not to exceed 180 days) from the effective date of such registration as may be requested by the Company or such managing underwriters.

12. Optionee's Representations. In the event the Company's issuance of the shares of Stock purchasable pursuant to the exercise of this Option has not been registered under the Securities Act of 1933, as amended, at the time this Option is exercised, Optionee shall, if required by the Company, concurrently with the exercise of all or any portion of this Option, deliver to the Company his Investment Representation Statement in the form attached to this Agreement as Exhibit A or in such other form as the Company may request.

13. No Right to Continued Employment. Neither the Option nor this Agreement shall confer upon the Optionee any right to continued employment or service with the Company.

14. Law Governing. This Agreement shall be governed in accordance with and governed by the internal laws of the State of California.

15. Interpretation / Provisions of Plan Control. This Agreement is subject to all the terms, conditions and provisions of the Plan, including, without limitation, the amendment provisions thereof, and to such rules, regulations and interpretations relating to the Plan adopted by the Committee or the Board as may be in effect from time to time. If and to the extent that this Agreement conflicts or is inconsistent with the terms, conditions and provisions

of the Plan, the Plan shall control, and this Agreement shall be deemed to be modified accordingly. The Optionee accepts the Option subject to all the terms and provisions of the Plan and this Agreement. The undersigned Optionee hereby accepts as binding, conclusive and final all decisions or interpretations of the Committee or the Board upon any questions arising under the Plan and this Agreement.

16. Notices. Any notice under this Agreement shall be in writing and shall be deemed to have been duly given when delivered personally or when deposited in the United States mail, registered, postage prepaid, and addressed, in the case of the Company, to the Company's Secretary at:

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or if the Company should move its principal office, to such principal office, and, in the case of the Optionee, to the Optionee's last permanent address as shown on the Company's records, subject to the right of either party to designate some other address at any time hereafter in a notice satisfying the requirements of this Section.

17. Tax Consequences. Set forth below is a brief summary as of the date of this Option of some of the federal tax consequences of exercise of this Option and disposition of the Shares. THIS SUMMARY IS NECESSARILY INCOMPLETE, AND THE TAX LAWS AND REGULATIONS ARE SUBJECT TO CHANGE. OPTIONEE SHOULD CONSULT A TAX ADVISER BEFORE EXERCISING THIS OPTION OR DISPOSING OF THE SHARES.

(a) Exercise of Option. There may be a regular federal income tax liability upon the exercise of the Option. The Optionee will be treated as having received compensation

income (taxable at ordinary income tax rates) equal to the excess, if any, of the fair market value of the Shares on the date of exercise over the exercise price. If Optionee is an employee, the Company will be required to withhold from Optionee's compensation or collect from Optionee and pay to the applicable taxing authorities an amount equal to a percentage of this compensation income at the time of exercise.

(b) Disposition of Shares. If Shares are held for at least one year, any gain realized on disposition of the Shares will be treated as long-term capital gain for federal income tax purposes.

The foregoing discussion assumes that, and only is applicable if, the fair market value of the Shares as of the date on which the Option is granted is not significantly less than the exercise price. The Company believes that it has made a good faith effort to determine the fair market value of the Shares and does not believe that the exercise price is significantly less than the fair market value of the Shares on the Date of Grant. No assurances can be given, however, that the Internal Revenue Service would not take a contrary position. It is possible that if the fair market value is determined to be significantly greater than the exercise price, the Internal Revenue Service may take the position that the Option is not in effect a stock option but should be treated as a restricted stock for tax purposes. The Optionee should consult with his or her own tax advisors as to whether any action should be taken to minimize these risks.

IN WITNESS WHEREOF, the undersigned have executed this Agreement as of the _____ day of _____, 20_____.

COMPANY:

SYNAPTICS INCORPORATED, A
CALIFORNIA CORPORATION

By: _____

Name:
Title:

Optionee acknowledges receipt of a copy of the Plan and represents that he or she is familiar with the terms and provisions thereof, and hereby accepts this Option subject to all of the terms and provisions thereof. Optionee has reviewed the Plan and this Option in their entirety, has had an opportunity to obtain the advice of counsel prior to executing this Option, and fully understands all provisions of the Option.

50

Dated: _____

OPTIONEE:

By: _____

Name:

51

EXHIBIT A

INVESTMENT REPRESENTATION STATEMENT

PURCHASER:

COMPANY:

SECURITY: COMMON STOCK

AMOUNT:

DATE:

In connection with the purchase of the above-listed Securities, I, the Purchaser, represent to the Company the following:

(a) I am aware of the Company's business affairs and financial condition, and have acquired sufficient information about the Company to reach an informed and knowledgeable decision to acquire the Securities. I am purchasing these Securities for my own account for investment purposes only and not with a view to, or for the resale in connection with, any "distribution" thereof for purposes of the Securities Act of 1933, as amended (the "Securities Act").

(b) I understand that the Company's issuance of the Securities has not been registered under the Securities Act in reliance upon a specific exemption therefrom, which exemption depends upon, among other things, the bona fide nature of my investment intent as expressed herein. In this connection, I understand that, in the view of the Securities and Exchange Commission (the "SEC"), the statutory basis for such exemption may be unavailable if my representation was predicated solely upon a present intention to hold these Securities for the minimum capital gains period specified under tax statutes, for a deferred sale, for or until an increase or decrease in the market price of the Securities, or for a period of one year or any other fixed period in the future.

(c) I further understand that the Securities must be held indefinitely unless the transfer is subsequently registered under the Securities Act or unless an exemption from registration is otherwise available. Moreover, I understand that the Company is under no obligation to register any transfer of the Securities. In addition, I understand that the certificate evidencing the Securities will be imprinted with a legend which prohibits the transfer of the Securities unless registered or such registration is not required in the opinion of counsel for the Company.

(d) I am familiar with the provisions of Rule 701 and Rule 144, each promulgated under the Securities Act, which, in substance, permit limited public resale of "restricted securities" acquired, directly or indirectly, from the issuer thereof, in a non-public offering subject to the satisfaction of certain conditions. Rule 701 provides that if the issuer qualifies under Rule 701 at the

time of issuance of the Securities, such issuance will be exempt from

registration under the Securities Act. In the event the Company later becomes subject to the reporting requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, ninety (90) days thereafter the securities exempt under Rule 701 may be resold, subject to the satisfaction of certain of the conditions specified by Rule 144, including among other things: (1) the sale being made through a broker in an unsolicited "broker's transaction" or in transactions directly with a market maker (as said term is defined under the Securities Exchange Act of 1934); and, in the case of an affiliate, (2) the availability of certain public information about the Company, and the amount of securities being sold during any three month period not exceeding the limitations specified in Rule 144(e), if applicable. Notwithstanding this paragraph (d), I acknowledge and agree to the restrictions set forth in paragraph (e) hereof.

In the event that the Company does not qualify under Rule 701 at the time of issuance of the Securities, then the Securities may be resold in certain limited circumstances subject to the provisions of Rule 144, which requires among other things: (1) the availability of certain public information about the Company, (2) the resale occurring not less than one year after the party has purchased, and made full payment for, within the meaning of Rule 144, the securities to be sold; and, in the case of an affiliate, or of a non-affiliate who has held the securities less than two years, (3) the sale being made through a broker in an unsolicited "broker's transaction" or in transactions directly with a market maker (as said term is defined under the Securities Exchange Act of 1934) and the amount of securities being sold during any three month period not exceeding the specified limitations stated therein, if applicable.

(e) I further understand that in the event all of the applicable requirements of Rule 144 or Rule 701 are not satisfied, registration under the Securities Act, compliance with Regulation A, or some other registration exemption will be required; and that, notwithstanding the fact that Rule 144 and Rule 701 are not exclusive, the Staff of the SEC has expressed its opinion that persons proposing to sell private placement securities other than in a registered offering and otherwise than pursuant to Rule 144 or Rule 701 will have a substantial burden of proof in establishing that an exemption from registration is available for such offers or sales, and that such persons and their respective brokers who participate in such transactions do so at their own risk.

Signature of Purchaser:

_____

Date: _____

EXHIBIT 10.7

SYNAPTICS INCORPORATED

2001 EMPLOYEE STOCK PURCHASE PLAN

SYNAPTICS INCORPORATED

2001 EMPLOYEE STOCK PURCHASE PLAN

SYNAPTICS INCORPORATED

2001 EMPLOYEE STOCK PURCHASE PLAN

1. Purpose. The purpose of the Plan is to provide incentive for present and future employees of the Company and any Designated Subsidiary to acquire a proprietary interest (or increase an existing proprietary interest) in the Company through the purchase of Common Stock. It is the Company's intention that the Plan qualify as an "employee stock purchase plan" under Section 423 of the Code. Accordingly, the provisions of the Plan shall be administered, interpreted and construed in a manner consistent with the requirements of that section of the Code.

2. Definitions.

(a) "Applicable Percentage" means the percentage specified in Section 8, subject to adjustment by the Committee as provided in Section 8.

(b) "Board" means the Board of Directors of the Company.

(c) "Code" means the Internal Revenue Code of 1986, as amended, and any successor thereto.

(d) "Committee" means the committee appointed by the Board to administer the Plan as described in Section 13 of the Plan or, if no such Committee is appointed, the Board.

(e) "Common Stock" means the Company's common stock, par value $.001 per share.

(f) "Company" means Synaptics Incorporated, a California corporation.

(g) "Compensation" means, with respect to each Participant for each

pay period, the full base salary and overtime paid to such Participant by the Company or a Designated Subsidiary. Except as otherwise determined by the Committee, "Compensation" does not include: (i) bonuses or commissions; (ii) any amounts contributed by the Company or a Designated Subsidiary to any pension plan; (iii) any automobile or relocation allowances (or reimbursement for any such expenses); (iv) any amounts paid as a starting bonus or finder's fee; (v) any amounts realized from the exercise of any stock options or incentive awards; (vi) any amounts paid by the Company or a Designated Subsidiary for other fringe benefits, such as health and welfare, hospitalization and group life insurance benefits, or perquisites, or paid in lieu of such benefits, or; (vii) other similar forms of extraordinary compensation.

(h) "Continuous Status as an Employee" means the absence of any interruption or termination of service as an Employee. Continuous Status as an Employee shall not be considered interrupted in the case of a leave of absence agreed to in writing by the Company or the Designated Subsidiary that employs the Employee, provided that such leave is for a period of not more than 90 days or reemployment upon the expiration of such leave is guaranteed by contract or statute.

(i) "Designated Subsidiaries" means the Subsidiaries that have been designated by the Board from time to time in its sole discretion as eligible to participate in the Plan.

(j) "Employee" means any person, including an Officer, whose customary employment with the Company or one of its Designated Subsidiaries is at least twenty (20) hours per week and more than five (5) months in any calendar year.

(k) "Entry Date" means the first day of each Exercise Period.

(l) "Exchange Act" means the Securities Exchange Act of 1934, as amended.

(m) "Exercise Date" means the last Trading Day ending on or before December 31, 2001, and the last Trading Day ending on or before each June 30 and December 31 thereafter, except that if the first Offering Period proceeds as scheduled without adjustment pursuant to Section 4 hereof, there shall be an additional Exercise Date on the last Trading Day of the first Offering Period, and there shall be no Exercise Date on the last trading day of December, 2003.

(n) "Exercise Period" means, for any Offering Period, each period commencing on the Offering Date and on the day after each Exercise Date, and terminating on the immediately following Exercise Date.

(o) "Exercise Price" means the price per share of Common Stock offered in a given Offering Period determined as provided in Section 8.

(p) "Fair Market Value" means, with respect to a share of Common Stock, the Fair Market Value as determined under Section 7(b).

(q) "First Offering Date" means the commencement date of the initial public offering contemplated by the Registration Statement on Form S-1 filed by the Company with the Securities and Exchange Commission.

(r) "Offering Date" means the first Trading Day of each Offering Period; provided, that in the case of an individual who becomes eligible to become a Participant under Section 3 after the first Trading Day of an Offering Period, the term "Offering Date" shall mean the first Trading Day of the Exercise Period coinciding with or next succeeding the day on which that individual becomes eligible to become a Participant. Options granted after the first day of an Offering Period will be subject to the same terms as the options granted on the first Trading Day of such Offering Period except that they will have a different grant date (thus, potentially, a different exercise price) and, because they expire at the same time as the options granted on the first Trading Day of such Offering Period, a shorter term.

(s) "Offering Period" means, subject to adjustment as provided in Section 4, (i) with respect to the first Offering Period, the period beginning on the First Offering Date and ending on November 30, 2003, (ii) with respect to the second Offering Period, the period beginning December 1, 2003 and ending December 31, 2005, and (iii) with respect to each Offering Period thereafter, the period beginning on the January 1 immediately following the end of the previous Offering Period and ending on the December 31 which is 24 months

thereafter.

5

(t) "Officer" means a person who is an officer of the Company within the meaning of Section 16 under the Exchange Act and the rules and regulations promulgated thereunder.

(u) "Participant" means an Employee who has elected to participate in the Plan by filing an enrollment agreement with the Company as provided in Section 5 of the Plan.

(v) "Plan" shall mean this 2001 Employee Stock Purchase Plan.

(w) "Plan Contributions" means, with respect to each Participant, the after-tax payroll deductions withheld from the Compensation of the Participant and contributed to the Plan for the Participant as provided in Section 6 of the Plan and any other amounts contributed to the Plan for the Participant in accordance with the terms of the Plan.

(x) "Subsidiary" shall mean any corporation, domestic or foreign, of which the Company owns, directly or indirectly, 50% or more of the total combined voting power of all classes of stock, and that otherwise qualifies as a "subsidiary corporation" within the meaning of Section 424(f) of the Code.

(y) "Trading Day" shall mean a day on which the national stock exchanges and the Nasdaq system are open for trading.

3. Eligibility.

(a) Any Employee who has completed at least three (3) months of employment with the Company or any Subsidiary and who is an Employee as of the Offering Date of a given Offering Period shall be eligible to become a Participant as of any Entry Date within that Offering Period under the Plan, subject to the requirements of Section 5(a) and the limitations imposed by Section 423(b) of the Code; provided, however, that any Employee who is an Employee as of the First Offering Date shall be eligible to become a Participant as of such First Offering Date.

(b) Notwithstanding any provision of the Plan to the contrary, no Participant shall be granted an option under the Plan (i) to the extent that if, immediately after the grant, such Employee (or any other person whose stock would be attributed to such Employee pursuant to Section 424(d) of the Code) would own stock and/or hold outstanding options to purchase stock possessing 5% or more of the total combined voting power or value of all classes of stock of the Company or of any Subsidiary of the Company, or (ii) to the extent that his or her rights to purchase stock under all employee stock purchase plans of the Company and its Subsidiaries intended to qualify under Section 423 of the Code to accrue at a rate which exceeds $25,000 of fair market value of stock (determined at the time such option is granted) for each calendar year in which such option is outstanding at any time.

4. Offering Periods. The Plan shall generally be implemented by a series of Offering Periods. The first Offering Period shall commence on the First Offering Date and end on November 30, 2003, the second Offering Period shall commence on December 1, 2003 and end on December 31, 2005, and succeeding Offering Periods shall commence on the January 1 immediately following the end of the previous Offering Period and end on the December 31 which is 24 months thereafter.

6

If, however, the Fair Market Value of a share of Common Stock on any Exercise Date (except the final scheduled Exercise Date of any Offering Period) is lower than the Fair Market Value of a share of Common Stock on the Offering Date, then the Offering Period in progress shall end immediately following the close of trading on such Exercise Date, and a new Offering Period shall begin on the next subsequent January 1 or July 1, as applicable, and shall extend for a 24 month period ending on December 31 or June 30, as applicable. Subsequent Offering Periods shall commence on the January 1 or July 1, as applicable, immediately following the end of the previous Offering Period and shall extend for a 24

month period ending on December 31 or June 30, as applicable. The Committee shall have the power to make other changes to the duration and/or the frequency of Offering Periods with respect to future offerings if such change is announced at least five (5) days prior to the scheduled beginning of the first Offering Period to be affected.

5. Election to Participate.

(a) An eligible Employee may elect to participate in the Plan commencing on any Entry Date by completing an enrollment agreement on the form provided by the Company and filing the enrollment agreement with the Company on or prior to such Entry Date, unless a later time for filing the enrollment agreement is set by the Committee for all eligible Employees with respect to a given offering. The enrollment agreement shall set forth the percentage of the Participant's Compensation that is to be withheld by payroll deduction pursuant to the Plan.

(b) Except as otherwise determined by the Committee under rules applicable to all Participants, payroll deductions for a Participant shall commence on the first payroll following the Entry Date on which the Participant elects to participate in accordance with Section 5(a) and shall end on the last payroll in the Offering Period, unless sooner terminated by the Participant as provided in Section 11.

(c) Unless a Participant elects otherwise prior to the last Exercise Date of an Offering Period, including the last Exercise Date prior to termination in the case of an Offering Period terminated by operation of the rule contained in Section 4 hereof, such Participant shall be deemed (i) to have elected to participate in the immediately succeeding Offering Period (and, for purposes of such Offering Period such Participant's "Entry Date" shall be deemed to be the first day of such Offering Period) and (ii) to have authorized the same payroll deduction for such immediately succeeding Offering Period as was in effect for such Participant immediately prior to the commencement of such succeeding Offering Period.

6. Participant Contributions.

(a) Except as otherwise authorized by the Committee pursuant to Section 6(d) below, all Participant contributions to the Plan shall be made only by payroll deductions. At the time a Participant files the enrollment agreement with respect to an Offering Period, the Participant may authorize payroll deductions to be made on each payroll date during the portion of the Offering Period that he or she is a Participant in an amount not less than 1% and not more than 15% of the Participant's Compensation on each payroll date during the portion of the Offering Period that he or she is a Participant (or subsequent Offering Periods as provided in Section 5(c)). The amount of

payroll deductions shall be a whole percentage (i.e., 1%, 2%, 3%, etc.) of the Participant's Compensation.

(b) A Participant may discontinue his or her participation in the Plan as provided in Section 11, or may decrease or increase the rate or amount of his or her payroll deductions during such Offering Period (within the limitations of Section 6(a) above) by completing and filing with the Company a new enrollment agreement authorizing a change in the rate or amount of payroll deductions; provided, that a Participant may not change the rate or amount of his or her payroll deductions more than once in any Exercise Period. The change in rate or amount shall be effective with the first full payroll period following ten (10) business days after the Company's receipt of the new enrollment agreement.

(c) Notwithstanding the foregoing, to the extent necessary to comply with Section 423(b)(8) of the Code and Section 3(b) hereof, a Participant's payroll deductions may be decreased to 0% at such time during any Exercise Period which is scheduled to end during the current calendar year that the aggregate of all payroll deductions accumulated with respect to such Exercise Period and any other Exercise Period ending within the same calendar year are equal to the product of $25,000 multiplied by the Applicable Percentage for the calendar year. Payroll deductions shall recommence at the rate provided in the Participant's enrollment agreement at the beginning of the following Exercise Period which is scheduled to end in the following calendar year, unless

terminated by the Participant as provided in Section 11.

(d) Notwithstanding anything to the contrary in the foregoing, but subject to the limitations set forth in Section 3(b), the Committee may permit Participants to make after-tax contributions to the Plan at such times and subject to such terms and conditions as the Committee may in its discretion determine. All such additional contributions shall be made in a manner consistent with the provisions of Section 423 of the Code or any successor thereto, and shall be held in Participants' accounts and applied to the purchase of shares of Common Stock pursuant to options granted under this Plan in the same manner as payroll deductions contributed to the Plan as provided above.

(e) All Plan Contributions made for a Participant shall be deposited in the Company's general corporate account and shall be credited to the Participant's account under the Plan. No interest shall accrue or be credited with respect to a Participant's Plan Contributions. All Plan Contributions received or held by the Company may be used by the Company for any corporate purpose, and the Company shall not be obligated to segregate or otherwise set apart such Plan Contributions from any other corporate funds.

7. Grant of Option.

(a) On a Participant's Entry Date, subject to the limitations set forth in Sections 3(b) and 12(a), the Participant shall be granted an option to purchase on each subsequent Exercise Date during the Offering Period in which such Entry Date occurs (at the Exercise Price determined as provided in Section 8 below) up to a number of shares of Common Stock determined by dividing such Participant's Plan Contributions accumulated prior to such Exercise Date and retained in the Participant's account as of such Exercise Date by the Exercise Price; provided, that the maximum

number of shares an Employee may purchase during any Exercise Period shall be One Thousand Five Hundred (1,500) shares. The Fair Market Value of a share of Common Stock shall be determined as provided in Section 7(b).

(b) The Fair Market Value of a share of Common Stock on a given date shall be determined by the Committee in its discretion; provided, that if there is a public market for the Common Stock, the Fair Market Value per share shall be either (i) the closing price of the Common Stock on such date (or, in the event that the Common Stock is not traded on such date, on the immediately preceding trading date), as reported by the National Association of Securities Dealers Automated Quotation (Nasdaq) National Market System, (ii) if such price is not reported, the average of the bid and asked prices for the Common Stock on such date (or, in the event that the Common Stock is not traded on such date, on the immediately preceding trading date), as reported by Nasdaq, (iii) in the event the Common Stock is listed on a stock exchange, the closing price of the Common Stock on such exchange on such date (or, in the event that the Common Stock is not traded on such date, on the immediately preceding trading date), as reported in The Wall Street Journal, or (iv) if no such quotations are available for a date within a reasonable time prior to the valuation date, the value of the Common Stock as determined by the Committee using any reasonable means. For purposes of the First Offering Date, the Fair Market Value of a share of Common Stock shall be the Price to Public as set forth in the final prospectus filed by the Company with the Securities and Exchange Commission pursuant to Rule 424 under the Securities Act of 1933, as amended.

8. Exercise Price. The Exercise Price per share of Common Stock offered to each Participant in a given Offering Period shall be the lower of: (i) the Applicable Percentage of the greater of (A) the Fair Market Value of a share of Common Stock on the Offering Date or (B) the Fair Market Value of a share of Common Stock on the Entry Date on which the Employee elects to become a Participant within the Offering Period or (ii) the Applicable Percentage of the Fair Market Value of a share of Common Stock on the Exercise Date. The Applicable Percentage with respect to each Offering Period shall be 85%, unless and until such Applicable Percentage is increased by the Committee, in its sole discretion, provided that any such increase in the Applicable Percentage with respect to a given Offering Period must be established not less than fifteen (15) days prior to the Offering Date thereof.

9. Exercise of Options. Unless the Participant withdraws from the Plan as provided in Section 11, the Participant's option for the purchase of shares

will be exercised automatically on each Exercise Date, and the maximum number of full shares subject to such option shall be purchased for the Participant at the applicable Exercise Price with the accumulated Plan Contributions then credited the Participant's account under the Plan. During a Participant's lifetime, a Participant's option to purchase shares hereunder is exercisable only by the Participant.

10. Delivery. As promptly as practicable after each Exercise Date, the Company shall arrange for the delivery to each Participant (or the Participant's beneficiary), as appropriate, or to a custodial account for the benefit of each Participant (or the Participant's beneficiary) as appropriate, of a certificate representing the shares purchased upon exercise of such Participant's option. Any amount remaining to the credit of a Participant's account after the purchase of shares by such Participant on an Exercise Date, or which is insufficient to purchase a full share of Common Stock,

shall be carried over to the next Exercise Period if the Participant continues to participate in the Plan or, if the Participant does not continue to participate, shall be returned to the Participant.

11. Withdrawal; Termination of Employment.

(a) A Participant may withdraw from the Plan at any time by giving written notice to the Company. All of the Plan Contributions credited to the Participant's account and not yet invested in Common Stock will be paid to the Participant as soon as administratively practicable after receipt of the Participant's notice of withdrawal, the Participant's option to purchase shares pursuant to the Plan automatically will be terminated, and no further payroll deductions for the purchase of shares will be made for the Participant's account. Payroll deductions will not resume on behalf of a Participant who has withdrawn from the Plan (a "Former Participant") unless the Former Participant enrolls in a subsequent Offering Period in accordance with Section 5(a).

(b) Upon termination of the Participant's Continuous Status as an Employee prior to any Exercise Date for any reason, including retirement or death, the Plan Contributions credited to the Participant's account and not yet invested in Common Stock will be returned to the Participant or, in the case of death, to the Participant's beneficiary as determined pursuant to Section 14, and the Participant's option to purchase shares under the Plan will automatically terminate.

(c) A Participant's withdrawal from an Offering Period will not have any effect upon the Participant's eligibility to participate in succeeding Offering Periods or in any similar plan which may hereafter be adopted by the Company.

12. Stock.

(a) Subject to adjustment as provided in Section 17, the maximum number of shares of the Company's Common Stock that shall be made available for sale under the Plan shall be One Million (1,0000,000) shares, plus an automatic annual increase on the first day of each of the Company's fiscal years beginning in 2002 and ending in 2011 equal to the lesser of (i) Five Hundred Thousand (500,000) shares, (ii) 1% of all shares of Common Stock outstanding on the last day of the immediately preceding fiscal year, or (iii) a lesser amount determined by the Board. Shares of Common Stock subject to the Plan may be newly issued shares or shares reacquired in private transactions or open market purchases. If and to the extent that any right to purchase reserved shares shall not be exercised by any Participant for any reason or if such right to purchase shall terminate as provided herein, shares that have not been so purchased hereunder shall again become available for the purpose of the Plan unless the Plan shall have been terminated, but all shares sold under the Plan, regardless of source, shall be counted against the limitation set forth above.

(b) A Participant will have no interest or voting right in shares covered by his option until such option has been exercised.

(c) Shares to be delivered to a Participant under the Plan will be registered in the name of the Participant or in the name of the Participant and his or her spouse, as requested by the Participant.

10

13. Administration.

(a) The Plan shall be administered by the Committee. The Committee shall have the authority to interpret the Plan, to prescribe, amend and rescind rules and regulations relating to the Plan, and to make all other determinations necessary or advisable for the administration of the Plan. The administration, interpretation, or application of the Plan by the Committee shall be final, conclusive and binding upon all persons.

(b) Notwithstanding the provisions of Subsection (a) of this Section 13, in the event that Rule 16b-3 promulgated under the Exchange Act or any successor provision thereto ("Rule 16b-3") provides specific requirements for the administrators of plans of this type, the Plan shall only be administered by such body and in such a manner as shall comply with the applicable requirements of Rule 16b-3. Unless permitted by Rule 16b-3, no discretion concerning decisions regarding the Plan shall be afforded to any person that is not "disinterested" as that term is used in Rule 16b-3.

14. Designation of Beneficiary.

(a) A Participant may file a written designation of a beneficiary who is to receive any shares and cash, if any, from the Participant's account under the Plan in the event of the Participant's death subsequent to an Exercise Date on which the Participant's option hereunder is exercised but prior to delivery to the Participant of such shares and cash. In addition, a Participant may file a written designation of a beneficiary who is to receive any cash from the Participant's account under the Plan in the event of the Participant's death prior to the exercise of the option.

(b) A Participant's beneficiary designation may be changed by the Participant at any time by written notice. In the event of the death of a Participant and in the absence of a beneficiary validly designated under the Plan who is living at the time of such Participant's death, the Company shall deliver such shares and/or cash to the executor or administrator of the estate of the Participant, or if no such executor or administrator has been appointed (to the knowledge of the Company), the Company, in its discretion, may deliver such shares and/or cash to the spouse or to any one or more dependents or relatives of the Participant, or if no spouse, dependent or relative is known to the Company, then to such other person as the Company may designate.

15. Transferability. Neither Plan Contributions credited to a Participant's account nor any rights to exercise any option or receive shares of Common Stock under the Plan may be assigned, transferred, pledged or otherwise disposed of in any way (other than by will or the laws of descent and distribution, or as provided in Section 14). Any attempted assignment, transfer, pledge or other distribution shall be without effect, except that the Company may treat such act as an election to withdraw funds in accordance with Section 11.

16. Participant Accounts. Individual accounts will be maintained for each Participant in the Plan to account for the balance of his Plan Contributions and options issued and shares purchased under the Plan. Statements of account will be given to Participants semi-annually in due course following each Exercise Date, which statements will set forth the amounts of payroll deductions, the per share purchase price, the number of shares purchased and the remaining cash balance, if any.

17. Adjustments Upon Changes in Capitalization; Corporate Transactions.

11

(a) If the outstanding shares of Common Stock are increased or decreased, or are changed into or are exchanged for a different number or kind of shares, as a result of one or more reorganizations, restructurings, recapitalizations, reclassifications, stock splits, reverse stock splits, stock dividends or the like, upon authorization of the Committee, appropriate adjustments shall be made in the number and/or kind of shares, and the per-share option price thereof, which may be issued in the aggregate and to any Participant upon exercise of options granted under the Plan.

(b) In the event of the proposed dissolution or liquidation of the Company, the Offering Period will terminate immediately prior to the consummation of such proposed action, unless otherwise provided by the Committee. In the event of a proposed sale of all or substantially all of the Company's assets, or the merger of the Company with or into another corporation (each, a "Sale Transaction"), each option under the Plan shall be assumed or an equivalent option shall be substituted by such successor corporation or a parent or subsidiary of such successor corporation, unless the Committee determines, in the exercise of its sole discretion and in lieu of such assumption or substitution, to shorten the Exercise Period then in progress by setting a new Exercise Date (the "New Exercise Date"). If the Committee shortens the Exercise Period then in progress in lieu of assumption or substitution in the event of a Sale Transaction, the Committee shall notify each Participant in writing, at least ten (10) days prior to the New Exercise Date, that the exercise date for such Participant's option has been changed to the New Exercise Date and that such Participant's option will be exercised automatically on the New Exercise Date, unless prior to such date the Participant has withdrawn from the Plan as provided in Section 11. For purposes of this Section 17(b), an option granted under the Plan shall be deemed to have been assumed if, following the Sale Transaction, the option confers the right to purchase, for each share of option stock subject to the option immediately prior to the Sale Transaction, the consideration (whether stock, cash or other securities or property) received in the Sale Transaction by holders of Common Stock for each share of Common Stock held on the effective date of the Sale Transaction (and if such holders were offered a choice of consideration, the type of consideration chosen by the holders of a majority of the outstanding shares of Common Stock); provided, that if the consideration received in the Sale Transaction was not solely common stock of the successor corporation or its parent (as defined in Section 424(e) of the Code), the Committee may, with the consent of the successor corporation and the Participant, provide for the consideration to be received upon exercise of the option to be solely common stock of the successor corporation or its parent equal in fair market value to the per share consideration received by the holders of Common Stock in the Sale Transaction.

(c) In all cases, the Committee shall have sole discretion to exercise any of the powers and authority provided under this Section 17, and the Committee's actions hereunder shall be final and binding on all Participants. No fractional shares of stock shall be issued under the Plan pursuant to any adjustment authorized under the provisions of this Section 17.

18. Amendment of the Plan. The Board or the Committee may at any time, or from time to time, amend the Plan in any respect; provided, that (i) no such amendment may make any change in any option theretofore granted which adversely affects the rights of any Participant and (ii) the Plan may not be amended in any way that will cause rights issued under the Plan to fail to meet the requirements for employee stock purchase plans as defined in Section 423 of the Code or any successor thereto. To the extent necessary to comply with Rule 16b-3 under the Exchange Act,

Section 423 of the Code, or any other applicable law or regulation), the Company shall obtain shareholder approval of any such amendment.

19. Termination of the Plan.

The Plan and all rights of Employees hereunder shall terminate on the earliest of:

(a) the Exercise Date that Participants become entitled to purchase a number of shares greater than the number of reserved shares remaining available for purchase under the Plan;

(b) such date as is determined by the Board in its discretion; or

(c) the last Exercise Date immediately preceding the tenth (10th) anniversary of the Plan's effective date.

In the event that the Plan terminates under circumstances described in Section 19(a) above, reserved shares remaining as of the termination date shall be sold to Participants on a pro rata basis.

20. Notices. All notices or other communications by a Participant to the Company under or in connection with the Plan shall be deemed to have been duly given when received in the form specified by the Company at the location, or by the person, designated by the Company for the receipt thereof.

21. Effective Date. Subject to adoption of the Plan by the Board, the Plan shall become effective on the First Offering Date. The Board shall submit the Plan to the shareholders of the Company for approval within twelve months after the date the Plan is adopted by the Board.

22. Conditions Upon Issuance of Shares.

(a) The Plan, the grant and exercise of options to purchase shares under the Plan, and the Company's obligation to sell and deliver shares upon the exercise of options to purchase shares shall be subject to compliance with all applicable federal, state and foreign laws, rules and regulations and the requirements of any stock exchange on which the shares may then be listed.

(b) The Company may make such provisions as it deems appropriate for withholding by the Company pursuant to federal or state tax laws of such amounts as the Company determines it is required to withhold in connection with the purchase or sale by a Participant of any Common Stock acquired pursuant to the Plan. The Company may require a Participant to satisfy any relevant tax requirements before authorizing any issuance of Common Stock to such Participant.

23. Expenses of the Plan. All costs and expenses incurred in administering the Plan shall be paid by the Company, except that any stamp duties or transfer taxes applicable to participation in the Plan may be charged to the account of such Participant by the Company.

24. No Employment Rights. The Plan does not, directly or indirectly, create any right for the benefit of any employee or class of employees to purchase any shares under the Plan, or create in any employee or class of employees any right with respect to continuation of employment by the

Company, and it shall not be deemed to interfere in any way with the Company's right to terminate, or otherwise modify, an employee's employment at any time.

25. Applicable Law. The laws of the State of California shall govern all matter relating to this Plan except to the extent (if any) superseded by the laws of the United States.

26. Additional Restrictions of Rule 16b-3. The terms and conditions of options granted hereunder to, and the purchase of shares by, persons subject to Section 16 of the Exchange Act shall comply with the applicable provisions of Rule 16b-3. This Plan shall be deemed to contain, and such options shall contain, and the shares issued upon exercise thereof shall be subject to, such additional conditions and restrictions as may be required by Rule 16b-3 to qualify for the maximum exemption from Section 16 of the Exchange Act with respect to Plan transactions.

EXHIBIT 10.8

SAVINGS PLAN

THE PRINCIPAL
FINANCIAL GROUP
PROTOTYPE FOR
SAVINGS PLANS

THIS PLAN IS A 401(K) PROFIT SHARING PLAN

ADOPTION AGREEMENT - PLUS

IRS SERIAL NO.: D347609B

ADOPTION AGREEMENT PLAN NO.: 001
TO BE USED WITH BASIC PLAN NO.: 03

APPROVED: OCTOBER 26, 1992

103

TABLE OF CONTENTS

A. Select (1) or (2).

1) If selected, check (a) or (b). If this Plan is a restatement, check (b).

b) If selected, fill in the restatement date.

2) If selected, fill in the amendment number and date.

B. Fill in exact, legal name.

C. For example: ABC, Inc. Savings Plan.

D. Fill in the date your Prior Plan started if this Plan is a restatement. If this Plan Is new, use the first day of the first Plan Year.

THE PRINCIPAL FINANCIAL GROUP PROTOTYPE FOR SAVINGS PLANS

ADOPTION AGREEMENT - PLUS

Use black ink to complete the Adoption Agreement.

A. This ADOPTION AGREEMENT is

1) [X] the Employer's first adoption of The Principal Financial Group Prototype for Savings Plans. Together with THE PRINCIPAL FINANCIAL GROUP PROTOTYPE BASIC SAVINGS PLAN, it constitutes

a) [ ] a new plan.

b) [X] a restatement of an existing plan (and trust). That plan was qualifiable under 401(a) of the Internal Revenue Code. The provisions of this restatement are effective on July 1, 2000. This is the RESTATEMENT DATE.

2) [ ]Amendment No. _____ to the Plan. It replaces all prior amendments to the Plan and the first Adoption Agreement. The provisions of this amendment are effective on _____ _____.

B. The terms we, us and our, as they are used in this Plan, refer to the EMPLOYER.

We, Synaptics, Inc._____

_____

_____

are the Employer.

C. The PLAN'S NAME is Synaptics, Inc. 401(k) Savings Plan _____

_____

_____

D. Our retirement plan became effective on July 1, 1991. This is the EFFECTIVE DATE.

4

E. Fill in Effective Date and check (1), (2) or (3).

2) The first Plan Year is short.

3) A later Plan Year is short.

(b) First day of short year (use same month and day as in (a)).

(c) First day of new Plan Year.

1) Principal Life Insurance Company may not be named.

1) Principal Life Insurance Company may not be named.

E. The YEARLY DATE Is the first day of each Plan Year. The Yearly Date is July 1, 1991 and

1) [ ] the same day of each following year.

2) [X] each following January 1 (month and day).

3) [ ](a) each following _____ (month and day) through (b) _____ and (c) each following _____ (month and day).

If the first date in Item E is after the Effective Date, Yearly Dates, before the first date in Item E above, shall be determined under the provisions of the Prior Plan (Plan) before that date.

F. The FISCAL YEAR is our taxable year and ends on June 30 (month and day).

G. We are the NAMED FIDUCIARY, unless otherwise specified in (1) below.

1) [ ]_____ is the Named Fiduciary.

H. We are the PLAN ADMINISTRATOR, unless otherwise specified in (1) below.

1) [ ]_____ is the Plan Administrator. The address, phone number and tax

filing number of the Plan Administrator are the same as the Employer's unless otherwise specified below.

Address:_____

_____

_____

Phone No.:_____

Tax Filing No.:_____

5

I. Select any items below which apply.

1) If this Plan is a continuation of a plan of a Predecessor employer, service with that Predecessor must be treated as service with you.

b) Exact, legal name(s).

I. A PREDECESSOR employer is a firm of which we were once a part or a firm absorbed by us because of a change of name, merger, acquisition or a change of corporate status.

1) [ ] A Predecessor is deemed to be the Employer for purposes of determining:

a) [ ] Entry Service.

b) [ ] Vesting Service.

c) [ ] Hours of Service required to be eligible for an Employer Contribution.

d) [ ] Pay.

2) [ ] Service with or pay from a Predecessor shall be counted only if service continued with us without interruption. This item shall not apply if this Plan is a continuation of a plan of that Predecessor.

3) [ ] Service with or pay from a Predecessor shall include service or pay while a proprietor or partner. (If this item is not checked, such service or pay shall not be counted.)

4) [ ] Service with or pay from a Predecessor shall be counted only as to a Predecessor which

a) [ ] maintained a qualified pension or profit sharing plan (or)

b) [ ] is named below:

_____

_____

_____

6

J. Select (1) or (2). Use Item Z to identify the Controlled Group and Affiliated Service Group members whose Employees may participate in the Plan.

2) If selected, check the requirements in (a), (c), (d) and (e) below which apply.

a) Select any employment classifications below which apply.

B. Bargaining unit's name.

B. Bargaining unit's name.

b) If more than one employment classification is selected in (a), check (i) or (ii).

J. An ELIGIBLE EMPLOYEE is

1) [ ] an Employee of ours or of an Adopting Employer listed in Item Z.

2) [X] an Employee of ours or of an Adopting Employer listed in item Z provided the Employee meets the requirement(s) selected below.

a) [X] Employed in the following employment classification:

i) [ ] Paid on a salaried basis.

ii) [ ] Paid on a commission basis.

iii) [ ] Paid on an hourly rate basis.

iv) [ ] Represented for collective bargaining purposes by

A. [ ] any bargaining unit.

B. [ ] _____

_____

_____

_____

v) [X] Not represented for collective bargaining purposes by

A. [X] any bargaining unit for which retirement benefits have been the subject of good faith bargaining between Employee representatives and us.

B. [ ]_____

_____

_____

b) If more than one employment classification is selected, the Employee must meet

i) [ ] each one of the employment classifications selected above.

ii) [ ] any one of the employment classifications selected above.

7

c) If selected, check (i), (ii) or both.

1) Select (a) or (b).

b) If selected, check (i) or (ii). Up to 1 year may be used (6 months if Entry Date is Yearly Date).

ii) If selected, fill in numerator of fraction (e.g. 6/12 for half a year).

2) Select (a) or (b). (Use only if service is required for entry.)

---

c) [ ] Not covered under any other qualified

i) [ ] profit sharing plan (or)

ii) [ ] pension plan

to which we contribute.

d) [ ] Employed at the following location or divisions or in the following positions:

_____

_____

_____

e) [ ] Not employed at the following location or divisions or in the following positions:

_____

_____

_____

K. ENTRY REQUIREMENTS

1) SERVICE REQUIRED to become an Active Member:

a) [X] Service is not required.

b) [ ] The minimum Entry Service required is

i) [ ] 1 (one) whole year.

ii) [ ] /12 of a year.

Note: If a fractional part of a year is required, the Hours Method may not be used to determine Entry Service.

2) ENTRY SERVICE, subject to the provisions of Plan Section 1.02, shall be determined as follows:

a) [ ] ELAPSED TIME METHOD. Entry Service is the total of an Employee's countable Periods of Service without regard to Hours of Service.

8

b) Only available if one year is used in K(1)above.

i) Optional reduced Hours of Service requirement.

ii) Optional crediting of Entry Service before Entry Service Period ends.

A. Optional Entry Service Period, continues on employment anniversaries.

A. Optional Hours of Service requirement. Fill in up to 500 hours but less than hours required for year of Entry Service.

3) Select (a) or (b).

b) Not over age 21 (20 1/2 if Entry Date is Yearly Date).

4) This waiver applies only on the date you fill in.

---

b) [ ] HOURS METHOD. A year of Entry Service is an Entry Service Period which has ended and in which an Employee has 1,000 Hours of Service, unless a lesser number is specified in (i) below.

i) [ ] _____ Hours of Service.

ii) [ ] A year of Entry Service shall be credited before the end of the Entry Service Period if the Employee has the number of Hours of Service specified above.

iii) An ENTRY SERVICE PERIOD is the 12-consecutive month period beginning on an Employee's Hire Date and each following 12-consecutive month period ending on the last day of the Plan Year, Including the 12-consecutive month period ending on the last day of the first Plan Year alter his Hire Date, unless otherwise specified in A. below. (See Plan Section 1.02 for the crediting of Entry Service during the first two periods.)

A. [ ] An Entry Service Period is the 12-consecutive month period beginning on an Employee's Hire Date and each following 12-consecutive month period beginning on an anniversary of that Hire Date.

iv) An ENTRY BREAK in service, when the Hours Method is

used, is an Entry Service Period in which an Employee is credited with not more than one-half of the Hours of Service required for a year of Entry Service, unless otherwise specified in A. below.

A. [ ] _____ or fewer Hours of Service.

3) AGE REQUIRED to become an Active Member:

a) [ ] A minimum age is not required.

b) [X] The Employee must be 21 or older.

4) [ ] The requirement(s) for entry checked below shall be waived on _____, _____. This date shall be an Entry Date if the Eligible Employee has met all the other entry requirements.

a) [ ] Service requirement.

b) [ ] Age requirement.

9

L. Select one of the following dates.

4) If selected, age and service required in Item K can't be over age 20 1/2 or more than 6 months, respectively.

a) Optional 415 (c)(3) definition of Pay.

b) Optional W-2 definition of Pay.

2) Optional provision to continue old definition until 1993 Limitation Year.

4) Optional provision to continue old definition until 1993 Plan Year.

L. ENTRY DATE. An Eligible Employee may enter the Plan as an Active Member on the earliest

1) [X] Monthly Date,

2) [ ] Semi-yearly Date,

3) [ ] Quarterly Date,

4) [ ] Yearly Date,

5) [ ] date,

on or after the date this Plan became effective, on which he meets all the entry requirements. This date is his ENTRY DATE.

M. PAY

1) COMPENSATION for purposes of Plan Section 3.06 is as defined therein, under Information required to be reported under Code Sections 6041 and 6051 (Wages, Tips and Other Compensation Box on Form W-2), which is actually paid or made available by us for the Limitation Year, unless otherwise specified in (a) or (b) below.

a) [ ] 415 safe-harbor compensation as defined in Plan Section 3.06.

b) [ ] Code Section 3401(a) wages (wages for purposes of income tax withholding) as defined in Plan Section 3.06.

2) [ ] The definition of Compensation above shall apply on and after the 1993 Limitation Year. The definition of Compensation on any date before the 1993 Limitation Year shall be determined in accordance with the provisions of the Prior Plan.

3) PAY for purposes of Plan Section 1.02 is the same as compensation for purposes of Plan Section 3.06 as specified in (1) above.

4) [ ] The definition of Pay in this Item M shall apply on and after the first Yearly Date in 1993. The definition of Pay on any date before the first Yearly Date in 1993 shall be determined in accordance with the provisions of the Prior Plan.

5) Safe harbor fringe benefit exclusion.

a) Optional provision to exclude fringe benefits for all purposes.

a) Optional Pay Year.

Select any modifications below which apply.

Pay shall include elective contributions. Elective contributions are amounts excludable from the gross income of the Employee under Code Sections 125,402(a)(8), 402(h) or 403(b), and contributed by us, at the Employee's election, to a code Section 401 (k) arrangement, a simplified employee pension, cafeteria plan or tax-sheltered annuity. Elective contributions also include Pay deferred under a Code Section 457 plan maintained by us and Employee contributions "picked up" by a governmental entity and, pursuant to Code Section 414(h)(2), treated as our contributions.

5) For purposes of Elective Deferral Contributions only Pay shall not include reimbursements or other expense allowances, fringe benefits (cash or non-cash), moving expenses, deferred compensation, and welfare benefits, unless otherwise specified in (a) below.

a) [ ] Pay for all purposes under the Plan shall not include reimbursements or other expense allowances, fringe benefits (cash or non-cash), moving expenses, deferred compensation, and welfare benefits.

6) ANNUAL PAY is, on any given date, an Employee's Pay for the latest Pay Year ending on or before that date.

7) The PAY YEAR is the one-year period ending on the last day of each Plan Year, unless a different Pay Year is specified in (a) below.

a) [ ] The one-year period ending on each _____, (month and day).

Pay is modified as follows:

8) [ ] An Employee's Annual Pay over $_____ shall be excluded.

9) [ ] If a Member's Entry Date occurs after _____, Pay before such Entry Date shall be excluded.

11
10) Optional exclusions.

h) Specify type of special pay excluded

1) Optional effective dates for elective deferral agreements. If selected, check (a), (b), (c) or (d).

Item (10) shall apply to the Pay used for purposes of determining the allocation or amount of specified Contributions. Item (10) shall not apply to the Pay used for purposes of determining the allocation of Contributions if an Integration Level is used to determine the allocation of Contributions.

10) [ ] Pay for purposes of determining the allocation or amount of

a) [ ] All Employer Contributions

b) [ ] Elective Deferral Contributions

c) [ ] Additional Contributions

d) [ ] Discretionary Contributions

excludes

e) [ ] bonuses

f) [ ] commissions

g) [ ] overtime pay

h) [ ] other special pay _____

_____

Item (11) shall only apply to the Pay used for purposes of determining excess amounts under Plan Section 3.07.

11) [ ] Pay shall include only amounts received while an Active Member of the Plan for the period described in Plan Section 3.07.

N. ELECTIVE DEFERRAL CONTRIBUTIONS for a Member are equal to a portion of Pay as specified in the written elective deferral agreement. An Employee who is eligible to participate in the Plan may file an elective deferral agreement with us. The elective deferral agreement to start Elective Deferral Contributions may be effective on a Member's Entry Date (Reentry Date, if applicable) or any following Semi-yearly Date, unless otherwise specified in (1) below.

1) [X] Following a Member's Entry Date (Reentry Date, if applicable), a Member's elective deferral agreement may become effective on any

a) [X] Monthly Date.

b) [ ] Quarterly Date.

c) [ ] Yearly Date.

d) [ ] date.

12

2) Optional minimum.

4) Optional maximum. (Consider using 20% reduced by the amount of other Contributions made for the Member.)

1) If Item O is selected, check (a) or (b).

a) Not more than 100%.

i) Optional minimum percentage.

ii) Optional maximum percentage. Less than 100%.

2) Optional limit on Elective Deferral Contributions matched. If selected, check (a) or (b). Limit can help meet nondiscrimination tests.

i) Optional minimum percentage.

ii) Optional maximum percentage.

The Member shall make any change or terminate the elective deferral agreement by filing a new elective deferral agreement. A Member's elective deferral agreement making a change may be effective on any date an elective deferral agreement to start Elective Deferral Contributions could be effective. A Member's elective deferral agreement to stop Elective Deferral Contributions may be effective on any date. The elective deferral agreement must be in writing and effective before the beginning of the pay period in which Elective Deferral Contributions are to start, change or stop. A Member may not defer more than 20% of Pay for the Plan Year. Elective Deferral Contributions shall be limited as needed to meet nondiscrimination tests.

2) [ ] _____% of Pay is the minimum Elective Deferral Contribution.

3) [X] Elective Deferral Contributions must be a whole percentage of Pay.

4) [X] 25% of Pay is the maximum Elective Deferral Contribution.

O. [X] We shall make MATCHING CONTRIBUTIONS.

1) The percentage of Elective Deferral Contributions matched is

a) [ ] _____%.

b) [X] determined by us, but won't be more than 100%.

i) [ ] _____% is the minimum percentage,

ii) [ ] _____% is the maximum percentage.

2) [X] Elective Deferral Contributions which are over the percentage of Pay below won't be matched.

a) [ ] _____%.

b) [X] A percentage determined by us.

i) [ ] _____% is the minimum percentage.

ii) [ ] _____% is the maximum percentage.

13

3) If Item O is selected, check (a) or (b).

4) If (3)(a) is selected, this option may be used to adjust the Matching Contributions at the end of the Plan Year.

a) Optional. Match at end of year only for those meeting requirements in Item Q.

b) If (4) is selected, check (i) or (ii).

i) Not more than 100%.

A. Optional minimum percentage.

B. Optional maximum percentage. Less than 100%.

c) Optional limit on Elective Deferral Contributions matched if (4) is selected. If selected, check (i) or (ii). Limit will help meet nondiscrimination tests.

A. Optional minimum percentage.

B. Optional maximum percentage.

---

3) Matching Contributions are made

a) [ ] as Elective Deferral Contributions are made.

b) [X] at the end of the Plan Year for Members meeting the requirements in Item Q.

4) [ ] At the end of the Plan Year we may make more Matching Contributions for Members who made Elective Deferral Contributions. Our total Matching Contributions for the Plan Year shall be made as specified below.

a) [ ] The Matching Contributions made at the end of the Plan Year shall only be made for those meeting the requirements in Item Q.

b) The percentage of Elective Deferral Contributions matched is

i) [ ] _____%.

ii) [ ] determined by us, but won't be more than 100%.

A. [ ] _____% is the minimum percentage.

B. [ ] _____% is the maximum percentage.

c) [ ] Elective Deferral Contributions which are over the percentage of Pay below won't be matched.

i) [ ] _____%.

ii) [ ] A percentage determined by us.

A. [ ] _____% is the minimum percentage.

B. [ ] _____% is the maximum percentage.

5) If selected, Matching Contributions may be tested for nondiscrimination with the Elective Deferral Contributions.

a) Optional if (5) is selected. Nonhighly Compensated Employees only.

6) Optional maximum on Matching Contributions.

a) Optional treatment of forfeitures which relate to excess amounts.

1) These contributions are used in the nondiscrimination tests. If selected, check (a) or (b).

a) Qualified Nonelective Contributions are a set amount. If selected, check the contribution formula, (i) or (ii).

i) If selected, check A or B.

---

5) [ ] Matching Contributions are Qualified Matching Contributions. Qualified Matching Contributions are 100% vested and subject to the withdrawal restrictions of Code Section 401(k).

a) [ ] Qualified Matching Contributions shall be made only for Nonhighly Compensated Employees.

6) [ ] Our Matching Contributions for a Member during any Plan Year shall not be more than $_____.

7) Forfeitures of Matching Contributions which relate to excess amounts as provided in Plan Section 3.07 shall be used to offset our first Contribution after the Forfeiture occurs, unless otherwise specified in (a) below.

a) [ ] Forfeitures of Matching Contributions which relate to excess amounts as provided in Plan Section 3.07 shall be allocated to those meeting the requirements in Item Q who do not have an excess amount using the allocation formula in P(3)(a) and shall be deemed to be Matching Contributions.

P. OTHER EMPLOYER CONTRIBUTIONS AND FORFEITURES

1) [X] QUALIFIED NONELECTIVE CONTRIBUTIONS. Qualified Nonelective Contributions are 100% vested and subject to the withdrawal restrictions of Code Section 401(k).

a) [ ] We shall make Qualified Nonelective Contributions equal to the following:

i) [ ] PAY FORMULA. An amount equal to

A. [ ] _____% of Pay for the pay period for each Member who is an Active Member on the last day of that period.

B. [ ] _____% of Annual Pay at the end of the Plan Year for Members who meet the requirements in Item

Q.

15
ii) If selected, check A or B.

b) Qualified Nonelective Contributions are determined by you each year.

c) Optional. Nonhighly Compensated Employees only.

2) These Contributions are a set amount. If selected, check the contribution formula, (a) or (b).

a) If selected, check (i) or (ii).

b) If selected, check (i), (ii), (iii) or (iv).

iii) No contribution for paid nonworking hours such as vacation.

iv) Contribution is made for paid nonworking hours such as vacation.

---

ii) [ ] SERVICE FORMULA. An amount equal to

A. [ ] $_____ for the pay period for each Member who is an Active Member on the last day of that period.

B. [ ] $_____ at the end of the Plan Year for Members who meet the requirements in Item Q.

b) [X] Qualified Nonelective Contributions may be made for each Plan Year in an amount determined by us. Our Qualified Nonelective Contributions shall be allocated to those meeting the requirements in Item Q using the allocation formula in P(3)(a).

c) [X] Qualified Nonelective Contributions shall be made only for or allocated only to Nonhighly Compensated Employees.

2) [ ] We shall make ADDITIONAL CONTRIBUTIONS equal to the following:

a) [ ] PAY FORMULA. An amount equal to

i) [ ] _____% of Pay for the pay period for each Member who is an Active Member on the last day of that period.

ii) [ ] _____% of Annual Pay at the end of the Plan Year for Members who meet the requirements in Item Q.

b) [ ] SERVICE FORMULA. An amount equal to

i) [ ] $_____ for the pay period for each Member who is an Active Member on the last day of that period.

ii) [ ] $_____ at the end of the Plan Year for Members who meet the requirements in Item Q.

iii) [ ] $_____ for each Hour of Service he has performed during the pay period for each Member who is an Active Member during the pay period.

iv) [ ] $_____ for each Hour of Service credited during the pay period for each Member who is an Active Member during the pay period.

16

3) These contributions are determined by you each year. If selected, check the allocation formula, (a) or (b).

i) Optional percentage. If selected, fill in a percentage up to the Maximum Integration Rate.

---

3) [X] DISCRETIONARY CONTRIBUTIONS may be made for each Plan Year in an amount determined by us. The amount of our Discretionary Contributions and Forfeitures, if applicable, allocated to a person meeting the requirements in Item Q shall be equal to the following:

a) [X] PAY FORMULA. An amount equal to our Discretionary Contributions and Forfeitures, if applicable, multiplied by the ratio of such person's Annual Pay to the total Annual Pay of all such persons.

b) [ ] INTEGRATED FORMULA. An amount equal to a percentage of the person's Annual Pay up to the Integration Level plus a percentage (equal to 2 times the first percentage) of his Annual Pay over the Integration Level. The first percentage shall be the Maximum Integration Rate, unless otherwise specified in (i) below.

i) [ ] _____% (If this percentage exceeds the Maximum Integration Rate, the Maximum Integration Rate shall apply.)

If our Discretionary Contributions and Forfeitures, if applicable, are not great enough to provide this allocation, the percentage above shall be proportionally reduced.

If our Discretionary Contributions and Forfeitures, if applicable, are more than enough to provide the allocation above, any amount remaining shall be allocated in the same manner as provided in the Pay Formula, Item P(3)(a).

ii) The MAXIMUM INTEGRATION RATE shall be determined according to the following schedule:

INTEGRATION LEVEL	INTEGRATION RATE
100% of TWB	5.7%
Less than 100%, but more than 80% of TWB	5.4%
More than the greater of $10,000 or 20% of TWB, but not more than 80% of TWB	4.3%
Not more than the greater of $10,000 or 20% of TWB	5.7%

17

A. Optional Dollar amount. Must be less than such taxable wage base

B. Optional percentage of such taxable wage base. Must be less than 100%,

4) Not applicable if Vesting Percentage is 100%.

a) Optional treatment of Forfeitures if P(3) is selected.

b) Optional treatment of Forfeitures if P(3) is not selected, but P(2) is selected.

"TWB" means the taxable wage base as in effect on the latest Yearly Date. "Taxable wage base" means the maximum amount of earnings which may be considered for wages for a year under Code Section 3121(a)(1).

On any date the portion of the rate of tax under Code Section 3111 (a) (in effect on the latest Yearly Date) which is attributable to old age insurance exceeds 5.7%, such rate shall be substituted for 5.7% and 5.4% and 4.3% shall be increased proportionally.

iii) The INTEGRATION LEVEL is the taxable wage base (as defined in (ii) above) as in effect on the latest Yearly Date, unless otherwise specified in A. or B. below,

A. [ ] $_____.

B. [ ] _____% of such taxable wage base.

4) If P(3) is selected, FORFEITURES shall be reallocated to remaining Members and if P(3) is not selected, Forfeitures shall be used to offset our first Contribution made after the Forfeiture is determined, unless otherwise specified in (a) or (b) below. If P(3) is selected, Forfeitures shall be allocated with our Discretionary Contributions and deemed to be Discretionary Contributions. (See Plan Section 3.05.)

a) [ ] Forfeitures shall not be allocated with our Discretionary Contributions, but shall be used to offset our first Contribution made after the Forfeiture is determined.

b) [ ] Forfeitures shall not be used to offset our first Contribution, but shall be allocated to those meeting the requirements in Item Q using the allocation formula in P(3)(a) and shall be deemed to be Additional Contributions.

Q. NET PROFITS AND CONTRIBUTION REQUIREMENTS

1) Our Contributions shall be made out of our current or accumulated NET PROFITS unless otherwise specified below.

a) [X] Our Contributions may be made without regard to our current or accumulated Net Profits.

18

2) If annual contributions are subject to these requirements or if Forfeitures are reallocated (see Items 0(7) and P(4)), select(a), (b), (c) or (d) below. If advanced funding is used, (a) must be checked.

i) Optional reduced Hours of Service requirement.

i) Optional reduced Hours of Service requirement.

e) Optional allocation requirement. Do not use with (a) above.

a) Optional Accrual Service Period if you use hours in (2) above.

---

2) REQUIREMENTS FOR CONTRIBUTIONS. The allocation of our Contributions is subject to the provisions of Article III and Article X of the Plan. Our Contributions which are subject to the requirements of this Item Q and Forfeitures shall be allocated as of the last day of the Plan Year to each

a) [ ] person who was an Active Member at any time during the Plan Year.

b) [X] Active Member on that date.

c) [ ] person who was an Active Member at any time during the Plan Year and who has at least 1,000 Hours of Service during the latest Accrual Service Period ending on or before that date, unless a lesser number is specified in (i) below.

i) [ ] _____ Hours of Service.

d) [ ] Active Member on that date who has at least 1,000 Hours of Service during the latest Accrual Service Period ending on or before that date, unless a lesser number is specified in (i) below.

i) [ ] _____ Hours of Service.

The allocation requirements in (b), (c) or (d) are modified as follows:

e) [ ] Our contributions shall also be allocated to each person who was an Active Member at any time during the Plan Year and who has retired, become Totally Disabled, or died.

3) The ACCRUAL SERVICE PERIOD is the 12-consecutive month period ending on the last day of each Plan Year, unless a different period is specified in (a) below.

a) [ ] The 12-consecutive month period ending on each _____ (month and day).

2) Fill in last day of the Limitation Year. Normally, the last day of the Plan Year is used. You must match the Limitation Years of all your other plans.

If you or an Employer, as defined in Plan Section 3.06, maintain or ever maintained another qualified plan in which any Member in this Plan is (or was) a member or could become a member, you must complete (3) and (4) of this Item R.

5) Optional maximum allocation.

d) Less than 25%.

R. CONTRIBUTION MODIFICATIONS

Contribution Limitations: The Annual Additions for a Member during a Limitation Year shall not be more than the Maximum Permissible Amount. (See Plan Sections 3.06 and 10.05.)

1) For Limitations Years beginning after December 31, 1991, for purposes of applying the limitations of Plan Section 3.06, Compensation for a Limitation Year is the Compensation actually

paid or made available during such Limitation Year.

2) The LIMITATION YEAR is the 12-consecutive month period ending on each December 31 (month and day).

3) If the Member is covered under another qualified defined contribution plan maintained by the Employer, as defined in Plan Section 3.06, other than a Master or Prototype Plan:

a) [ ] The provisions of (f) through (k) of Plan Section 3.06 will apply as if the other plan were a Master or Prototype Plan.

b) [ ] The method described on the attached page shall be used to limit total Annual Additions to the Maximum Permissible Amount, and will properly reduce the Excess Amounts, in a manner which precludes Employer discretion.

4) If the Member is or has ever been a member in a defined benefit plan maintained by the Employer, as defined in Plan Section 3.06, the method described on the attached page shall be used to satisfy the 1.0 limitation of Code Section 415, in a manner which precludes Employer discretion.

5) [ ] The amount of our Contributions for any

a) [ ] Plan Year

b) [ ] Limitation Year

allocated to a person meeting the requirements in Item Q shall not be more than (the lesser of)

c) [ ] $_____ (or)

d) [ ] _____% of his Annual Pay (Compensation for the Limitation Year if (b) above is selected).

20
In Years when this Plan is a Top-heavy Plan, special minimum and maximum Contribution provisions apply. Use Items (6) through (9), as needed, to meet the requirements for your plans which are top-heavy or to extend the minimums to other employees or Years. The items you select here override any provisions of Article X to the contrary.

1) Select if Voluntary Contributions are permitted.

T. Select (1) or (2) and complete (3).

1) If selected, fill in the names of all trustees. (Consider naming two or more.) Complete (a) and (b).

Top-heavy Plan Requirements: The amount and allocation of Contributions shall be subject to the provisions of Article X of the Plan in Years when this is a Top-heavy Plan.

6) [ ] Key Employees who are Employees on the last day of the Year shall also receive the minimum allocation required in Years when this is a Top-heavy Plan.

7) [ ] A _____% (not less than 3%) minimum allocation shall apply in Years when this is a Top-heavy Plan.

8) [ ] The minimum allocation in (6) and (7) above and in Article X shall apply in all Years without regard to whether or not this is

a Top-heavy Plan or to the requirements in Item Q.

9) [ ] The method described on the attached page shall be used to meet the minimum allocation and benefit requirements in Years when this is a Top-heavy Plan, in a manner which precludes Employer discretion.

Present Value: For purposes of establishing Present Value to compute the Top-heavy Ratio, any benefit shall be discounted only for 7 1/2% interest and mortality according to the 1971 Group Annuity Table (Male) without the 7% margin but with projection by Scale E from 1971 to the later of (a) 1974, or (b) the year determined by adding the age to 1920, and wherein for females the male age six years younger is used, unless otherwise specified in (10) and (11) below:

10) [ ] Interest rate _____%.

11) [ ] Mortality table: _____

_____

S. VOLUNTARY CONTRIBUTIONS are not permitted, unless otherwise specified in (1) below.

1) [ ] Voluntary Contributions are permitted.

T. INVESTMENT

1) [X] The Plan is trusteed. Plan assets may be invested in an Annuity Contract and other funding vehicle(s).

We have named the following person(s) to act as TRUSTEE under the Trust:

Russ Knittel
MaryJo Visneski
Miriam Watson

21

a) If the plan is trusteed, select (i) or (ii).

b) If the plan is trusteed, select (i) or (ii).

iii) Fill in the person or position authorized to administer the Member loan program. Principal Life Insurance Company may not be used.

iv) Optional minimum loan amount. Fill in up to $1,000. If none is selected, there is no minimum.

v) Optional maximum loan amount. Fill in up to $49,999. If none is selected, the maximum is the lesser of 50% of Vested Account or $50,000, reduced by any loan balance.

vi) Optional number of outstanding loans.

---

a) LIFE INSURANCE

i) [ ] With the Trustee's consent and subject to the limits and provisions of Article IV of the Plan, an Active Member may elect to have his Account applied to purchase life insurance coverage on his life.

ii) [X] Life insurance coverage is not provided under this

Plan.

b) LOANS

i) [ ] The Trustee shall not make a loan to a Member.

ii) [X] The Trustee may make a loan to a Member from the Trust Fund, subject to the provisions of Plan Section 5.06.

iii) Mary Jo Visneski is the Loan Administrator.

iv) [X] The minimum amount of any loan is $1,000.00

v) [ ] The maximum amount of any loan is the lesser of 50% of the Member's Vested Account or $_____, reduced by any outstanding loan balance.

vi) The number of outstanding loans shall be limited to one, unless otherwise specified in A. or B. below.

A. [ ] The number shall be limited to _____.

B. [ ] The number shall not be limited.

vii) Optional number of loans approved in any 12-month period.

a) Select (i), (ii) or (iii).

b) Select (i), (ii) or (iii).

c) Select (i), (ii) or (iii).

---

vii) The number of loans approved in a 12-month period shall be limited to one, unless otherwise specified in A. or B. below.

A. [ ] The number shall be limited to _____.

B. [ ] The number shall not be limited.

2) [ ] The Plan is not trusteed. Plan assets shall be invested only in an Annuity Contract.

3) Subject to the provisions of Articles IV and VIIIA of the Plan and the Annuity Contract, the investment of that part of a Member's Account resulting from

a) our Contributions other than Elective Deferral Contributions shall be directed by

i) [ ] the Member with the Trustee's consent (our consent, if not trusteed).

ii) [X] the Member.

iii) [ ] the Trustee (us, if not trusteed).

b) Elective Deferral Contributions shall be directed by

i) [ ] the Member with the Trustee's consent (our consent, if not trusteed).

ii) [X] the Member.

iii) [ ] the Trustee (us, if not trusteed).

c) Member Contributions and Rollover Contributions shall be directed by

i) [ ] the Member with the Trustee's consent (our consent, if not trusteed).

ii) [X] the Member.

iii) [ ] the Trustee (us, if not trusteed).

1) Check any other Employer Contributions which are also 100% vested.

2) Select one of the schedules below if some Employer Contributions aren't 100% vested when made.

e) If selected, fill in the percentages. The schedule must provide full (100%) vesting after 5 years of Vesting Service or must at all times be as great as the Vesting Percentage which the schedule in (d) would provide.

U. VESTING PERCENTAGE is used to determine the nonforfeitable percentage of a Member's Account resulting from our Contributions.

The Vesting Percentage for a Member who is an Employee on the date he reaches Normal Retirement Age, meets the requirement(s) for Early Retirement Date, becomes Totally Disabled or dies, whichever occurs first, shall be 100% on such date.

1) Fully Vested Contributions. Elective Deferral Contributions are 100% vested. Qualified Matching Contributions and Qualified Nonelective Contributions are 100% vested. The following Employer Contributions are also 100% vested at all times.

a) [ ] All other Employer Contributions.

b) [ ] Additional Contributions.

c) [ ] Matching Contributions

d) [ ] Discretionary Contributions.

2) A Member's Account resulting from our Contributions which are not 100% vested is subject to the Vesting Percentage determined below.

Vesting Service	Vesting Percentage				
	(a) [ ]	(b) [ ]	(c) [ ]	(d) [ ]	(e) [X]
Less than 1	0	0	0	0	0.00
1	0	0	0	0	25.00
2	0	20	0	0	50.00

3	100	40	0	20	75.00
4		60	0	40	100.00
5		80	100	60	
6		100		80	
7				100	

A Member's Vesting Percentage determined above shall never be reduced in later years. If this Plan is or ever has been a Top-heavy Plan, the minimum vesting provisions of Article X shall apply.

24

V. Select (1) or (2). (Don't use this item if all Employer Contributions are fully vested and Early Retirement Date is not based on Vesting Service.)

Use (a), (b) or both only if the method of crediting service has changed. The Plan must use either the Elapsed Time Method or the Hours Method after the date the Plan became subject to ERISA.

a) Optional reduced Hours of Service.

i) Optional Vesting Service Period.

ii) Optional Vesting Service Period with changes.

B. Month and day used in A. and last year this period is used.

C. Month and day on which new period ends.

V. VESTING SERVICE, subject to the provisions of Plan Section 1.02, shall be determined as follows:

1) [X] ELAPSED TIME METHOD. Vesting Service is the total of an Employee's countable Periods of Service without regard to Hours of Service.

a) [ ] The Elapsed Time Method is used to determine service on and after _____, _____.

b) [ ] The Elapsed Time Method is used to determine service before _____, _____.

2) [ ] HOURS METHOD. A year of Vesting Service is a Vesting Service Period in which an Employee has 1,000 Hours of Service, unless a lesser number is specified in (a) below.

a) [ ] _____ Hours of Service.

b) A VESTING SERVICE PERIOD is the 12-consecutive month period ending on the last day of each Plan Year,

unless otherwise specified in (i) or (ii) below.

i) [ ] The 12-consecutive month period ending on each

_____
(month and day).

ii) [ ] The 12-consecutive month period ending on

A. each _____
(month and day) through

B. _____
and

C. each following _____
(month and day).

25

i) Optional Hours of Service requirement. Fill in up to 500 hours, but less than hours required for year of Vesting Service.

d) and e). See comment for V(1)(a) and (b).

Select any modifications below which apply. If the Hours Method is used, any date you use should be the first day of a service period.

a) Not available for service after the date the Plan became subject to ERISA.

4) If selected, fill in a date on or before the Effective Date.

5) Not over age 18.

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c) A VESTING BREAK in service, when the Hours Method is used, is a Vesting Service Period in which an Employee is credited with not more than one-half of the Hours of Service required for a year of Vesting Service, unless otherwise specified in (i) below.

i) [ ] _____ or fewer Hours of Service.

d) [ ] The Hours Method is used to determine service on and after _____, _____.

e) [ ] The Hours Method is used to determine service before _____, _____.

Vesting Service is modified as follows:

3) [ ] Service before _____, _____.

a) [ ] is the total of an Employee's countable service with us, expressed in whole years and fractional parts of a year (counting a partial month as a complete month).

b) [ ] shall be determined under the provisions of the Plan in effect on the day before that date.

4) [ ] Service before _____, _____ shall not be counted.

5) [ ] Service before an Employee attains age _____ shall not be counted. (If the Hours Method is used, service during the Vesting Service Period in which he attains this age shall not

be excluded because of this item.)

26

a) Optional frequency for withdrawal of Voluntary Contributions. If selected, check (i) or (ii).

2) Optional 401 (k) hardship withdrawal.

a) Optional restriction on hardship withdrawal.

3) Optional withdrawal after age 59 1/2.

a) Optional frequency for withdrawal after age 59 1/2. If selected, check (i) or (ii).

4) Optional withdrawal after 5 years as an Active Member. Must have Matching Contributions that are not qualified, Additional Contributions or Discretionary Contributions. If selected, check (a), (b), (c) or (d).

W. WITHDRAWAL BENEFITS

1) A Member may withdraw, in a single sum, any part of his Vested Account resulting from Voluntary Contributions. A Member may make only two such withdrawals in any twelve-month period, unless otherwise specified in (a) below.

a) [ ] A Member may make

i) [ ] such a withdrawal at any time.

ii) [ ] only _____ such withdrawal(s) in any twelve-month period.

2) [X] Unless otherwise specified in (a) below, a Member may withdraw any part of his Vested Account which does not result from Voluntary Contributions, Qualified Matching Contributions or Qualified Nonelective Contributions in the event of undue financial hardship. Withdrawals from the Member's Account resulting from Elective Deferral Contributions shall be limited to the amount of the Member's Elective Deferral Contributions (and earnings thereon accrued as of December 31, 1988). The withdrawal is subject to the provisions of Plan Section 5.05.

a) [ ] Such withdrawal shall be limited to the amount of the Member's Elective Deferral Contributions (and earnings thereon accrued as of December 31, 1988).

3) [X] A Member may withdraw any part of his Vested Account which does not result from Voluntary Contributions at any time after he attains age 59 1/2. A Member may make only two such withdrawals in any twelve-month period, unless otherwise specified in (a) below.

a) [ ] A Member may make

i) [ ] such a withdrawal at any time.

ii) [ ] only _____ such withdrawal(s) in any twelve-month period.

4) [ ] A percentage of a Member's Vested Account which does not result from Voluntary Contributions, Elective Deferral Contributions, Qualified Matching Contributions or Qualified Nonelective Contributions may be withdrawn after he has been an Active Member for at least five (5) years.

The percentage which may be withdrawn is

a) [ ] 25%

b) [ ] 25% or 50%, as he requests.

27

1) Normal Retirement Age may not exceed any mandatory retirement age imposed by you on your Employees. Must use (a) or (b) if mandatory age is younger than 65.

a) Optional Normal Retirement Age. Fill in age younger than 65.

b) Optional Normal Retirement Age. Select (i) or (ii) and fill in up to age 65.

i) Fill in up to 5 years.

ii) Fill in up to 5 years.

iii) Optional maximum Normal Retirement Age if (b) is selected. Fill in up to age 70.

---

c) [ ] 25%, 50% or 75%, as he requests.

d) [ ] any percentage up to _____%, as he requests.

A Member shall not make another withdrawal under this item until he has been an Active Member for at least five (5) years since his last withdrawal.

Note: Withdrawals are subject to the qualified election procedures of Article VI.

X. RETIREMENT AND THE START OF BENEFITS

1) NORMAL RETIREMENT AGE is the age at which the Member's Account shall become nonforfeitable if he is an Employee. A Member's Normal Retirement Age is age 65, unless otherwise specified in (a) or (b) below.

a) [ ] Age _____.

b) [X] The older of age 60 or his age on the

i) [X] date 4 years after the first day of the Plan Year in which his Entry Date occurred.

ii) [ ] earlier of the date _____ years after his Hire Date or the date 5 years after the first day of the Plan Year in which his Entry Date occurred.

iii) [ ] A Member's Normal Retirement Age shall not be older than age _____.

c) [ ] A Member's Normal Retirement Age shall not be older than normal retirement age under the Plan on the day before any change in the Normal Retirement Age provisions, if he was a Member on such date.

28

2) Select (a) or (b).

a) If selected, check and complete any requirements below which apply. An Employee's Account is 100% vested when the requirements are met.

3) Optional modification of the start of benefits. Check (a) or (b).

i) Optional. Restriction does not apply to Elective Deferral Contributions.

b) If selected, check (i) or (ii).

---

2) EARLY RETIREMENT DATE

a) [X] Early Retirement Date is the first day of the month before a Member's Normal Retirement Date which he selects for the start of retirement benefits. This day shall be on or after the date the Member ceases to be an Employee and the date the following requirement(s) are met:

i) [X] He is age 55.

ii) [ ] He has _____ years of Vesting Service.

iii) [ ] He is within _____ years of Normal Retirement Date.

iv) [X] He has been an Active Member 4 years.

b) [ ] Early retirement is not permitted.

3) Section 5.03 permits an Employee to elect to start benefits after he ceases to be an Employee. The start of benefits is modified as follows:

a) [ ] Benefit payments from that part of a Member's Vested Account resulting from our Contributions shall not begin before the Member retires, becomes Totally Disabled or dies. A small Vested Account may be paid earlier in a single sum. (See Plan Section 9.10.)

i) [ ] Such restriction shall not apply to that part of a Member's Vested Account resulting from Elective Deferral Contributions.

b) [ ] The Member may elect to receive his Member Contributions in a single sum. Any other benefit payment under Plan Section 5.03 shall not begin before the Member has ceased to be an Employee for a period of time. Payment of a small Vested Account will also be delayed. (See Plan Section 9.10.) The period of time is

i) [ ] _____ month(s).

ii) [ ] _____ year(s).

29
1) If selected, check (a) or (b).

Y. FORMS OF DISTRIBUTION

1) [ ] A Member may not receive a single sum payment of that part of his Vested Account resulting from our Contributions

a) [ ] at any time.

b) [ ] before the Member retires or becomes Totally Disabled.

A small Vested Account may be paid in a single sum. (See Plan Section 9.10.)

Z. ADOPTING EMPLOYERS

Note: The Code requires minimum coverage requirements for retirement plans of Controlled Groups and Affiliated Service Groups. If you are a member of such a group, you may use this item to identify the other employers in the group whose Employees may become Members. If an employer listed below does not evidence the establishment of the separate plan or the agreement to participate in writing, you and the other Adopting Employers must contribute on behalf of its Employees who are Active Members.

Affiliated firms which are not a part of a Controlled Group or Affiliated Service Group may also become Adopting Employers.

1) Separate Plans or Single Plan.

a) Separate Plans. Adopting Employers may establish a separate plan for the exclusive benefit of their Employees. The establishment of an Adopting Employer's separate plan shall be evidenced in writing according to the provisions of Plan Section 2.03.

i) [ ] All of the Adopting Employers listed below establish a separate plan.

ii) [ ] The Adopting Employers listed in _____ below establish a separate plan.

b) Single Plan. Adopting Employers may participate with us in a single plan. An Adopting Employer's agreement to participate in this Plan shall be evidenced in writing according to the provisions of Plan Section 2.04.

i) [ ] All of the Adopting Employers listed below participate with us in a single plan.

ii) [ ] The Adopting Employers listed in _____ below participate with us in a single plan.

2) The Adopting Employers are:

a) Name: _____

Address: _____

_____

_____

Phone No.: _____

EIN No. (If Separate Plans): _____

Plan No. (If Separate Plans): _____

Date of Adoption or Participation: _____, _____

Fiscal Year End: _____ Executed: _____, _____

(month and day)

By _____

(signature)

(title)

31

b) Name:

Address:

Phone No.:

EIN No. (If Separate Plans):

Plan No. (If Separate Plans):

Date of Adoption or Participation: , ---- -----

Fiscal Year End: Executed: , ---- -----
(month and day)

By

(signature)

(title)

c) Name:

Address:

Phone No.:

EIN No. (If Separate Plans):

Plan No. (If Separate Plans):

Date of Adoption or Participation: , ---- -----

Fiscal Year End: Executed: , ---- -----
(month and day)

By

(signature)

(title)

32

d) Name:

Address:

Phone No.:

EIN No. (If Separate Plans):

Plan No. (If Separate Plans):

Date of Adoption or Participation: , ---- -----

Fiscal Year End: Executed: , ---- -----
(month and day)

By

(signature)

(title)

e) Name:

Address:

Phone No.:

EIN No. (If Separate Plans):

Plan No. (If Separate Plans):

Date of Adoption or Participation: , ---- -----

Fiscal Year End: Executed: , ---- -----
(month and day)

By

(signature)

(title)

33

f) Name: _____

Address: _____

_____

_____

Phone No.: _____

EIN No. (If Separate Plans): _____

Plan No. (If Separate Plans): _____

Date of Adoption or Participation: _____, _____

Fiscal Year End: _____ Executed: _____, _____
(month and day)

By _____
(signature)

_____
(title)

g) Name: _____

Address: _____

_____

_____

Phone No.: _____

EIN No. (If Separate Plans): _____

Plan No. (If Separate Plans): _____

Date of Adoption or Participation: _____, _____

Fiscal Year End: _____ Executed: _____, _____
(month and day)

By _____
(signature)

_____
(title)

34

h) Name: _____

Address: _____

_____

_____

Phone No.: _____

EIN No. (If Separate Plans): _____

Plan No. (If Separate Plans): _____

Date of Adoption or Participation: _____, _____

Fiscal Year End: _____ Executed: _____, _____
(month and day)

By _____
(signature)

_____
(title)

35

3) These Adopting Employers had Prior Plans:

	NAME	DATE PRIOR PLAN WAS ESTABLISHED
a)	_____	_____
b)	_____	_____
c)	_____	_____
d)	_____	_____
e)	_____	_____
f)	_____	_____
g)	_____	_____
h)	_____	_____

Note: If (1)(b)(i) or (ii) above is selected, the provisions of Plan Section 9.02 shall apply in the case of the merger of this Plan with any Prior Plan of an Adopting Employer participating with us in a single plan.

36

4) These Adopting Employers have waived the following entry

requirements for their Employees who are Eligible Employees on the date specified below. (Your selections in Item K(4) apply only to the primary Employer in item B.)

	NAME	AGE REQUIREMENT	SERVICE REQUIREMENT	DATE
a)	_____	[ ]	[ ]	_____
b)	_____	[ ]	[ ]	_____
c)	_____	[ ]	[ ]	_____
d)	_____	[ ]	[ ]	_____
e)	_____	[ ]	[ ]	_____
f)	_____	[ ]	[ ]	_____
g)	_____	[ ]	[ ]	_____
h)	_____	[ ]	[ ]	_____

By executing this Adoption Agreement, we, the Employer, adopt "The Principal Financial Group Prototype for Savings Plans" for the exclusive benefit of our employees. Our selections and specifications contained in this Adoption Agreement and the terms, provisions and conditions provided in The Principal Financial Group Prototype Basic Savings Plan constitute our PLAN. No other basic plan may be used with this Adoption Agreement.

It is understood that Principal Life Insurance Company is not a party to our Plan and shall not be responsible for any tax or legal aspects of our Plan. We assume responsibility for these matters. We acknowledge that we have counseled, to the extent necessary, with selected legal and tax advisors. The obligations of Principal Life Insurance Company shall be governed solely by the provisions of its contracts and policies. Principal Life Insurance Company shall not be required to look into any action taken by the Plan Administrator, Named Fiduciary, Trustee or us and shall be fully protected in taking, permitting or omitting any action on the basis of our actions. Principal Life Insurance Company shall incur no liability or responsibility for carrying out actions as directed by the Plan Administrator, Named Fiduciary, Trustee or us.

This Plan is an important legal document. It may not fit your situation. You will want to consult with your lawyer on whether it does or not and on its tax and legal implications, for which neither Principal Life Insurance Company nor its agents can assume responsibility.

Failure to properly fill out this Adoption Agreement may result in disqualification of this Plan. Principal Life Insurance Company will inform you of any amendments made to the Plan or of the abandonment of the Plan. The address of Principal Life Insurance Company is 711 High Street, Des Moines, Iowa 50392-0001. When you first adopt the prototype, The Principal will assign a contact person and give you a toll-free number. If you have not been assigned a contact person, call 1-800-543-4015, Extension 75397, for assistance.

The opinion letter issued by the National Office of the Internal Revenue Service applies to the prototype form. You may not rely on it as evidence that your Plan is qualified under Code Section 401. In order to obtain reliance with respect to the qualification of your plan, you must apply to your Key District Office for a determination letter.

(Complete in black ink.)

This Adoption Agreement is executed June 9 , 2000 .
(month and day)

FOR THE EMPLOYER

By /s/ R J Knittel
(signature)

Vice President & Chief Financial Officer
(title)

[ ] By my signature above, I hereby execute this Adoption Agreement on behalf of each Adopting Employer identified in Item Z.

FOR THE TRUSTEE

By /s/ R J Knittel
(signature)
Title: Vice President & Chief Financial Officer

Address: 2381 Bering Drive

San Jose, CA 95131-1125

FOR THE TRUSTEE

By /s/ Miriam Watson
(signature)
Title: Human Resources Manager

Address: 2381 Bering Drive

San Jose, CA 95131-1125

FOR THE TRUSTEE

By /s/ M J Visneski
(signature)
Title: Corporate Controller

Address: 2381 Bering Drive

San Jose, CA 95131-1125

FOR THE TRUSTEE

By
(signature)
Title:

Address:

FOR THE TRUSTEE

By
(signature)
Title:

Address:

FOR THE TRUSTEE

By
(signature)
Title:

Address:

Acknowledgement by the Named Fiduciary (if other than the Employer or Trustee).

By _____
(signature)

Annuity Contract No.: GA _____

39
Item R(3)(b) The method used to limit Annual Additions to the Maximum Permissible Amount:

Item R(4) The method used to satisfy the 1.0 limitation of Code Section 415:

40
Item R(9) The method used to meet the minimum contribution and allocation requirements in Years when this is a Top-heavy Plan:

41

PRINCIPAL LIFE
INSURANCE COMPANY
DES MOINES, LOWA 50392-0001

42

UNILATERAL AMENDMENT - MODEL AMENDMENT TO COMPLY WITH SECTION 401(a)(17) OF THE INTERNAL REVENUE CODE AS AMENDED BY THE OMNIBUS BUDGET RECONCILIATION ACT OF 1993

Principal Mutual Life Insurance Company hereby amends, effective as of the first day of January 1, 1994, the following prototype plans and by such amendment, amends each retirement plan set forth on any such prototype by an adopting employer:

THE PRINCIPAL FINANCIAL GROUP PROTOTYPE FOR:

Profit Sharing Plans - Plus	Letter Serial No.: D347613B	Plan No.: 003	Basic Plan No.: 01
Profit Sharing Plans - Standardized	Letter Serial No.: D247614B	Plan No.: 004	Basic Plan No.: 01
Savings Plans - Plus	Letter Serial No.: D347609B	Plan No.: 001	Basic Plan No.: 03
Savings Plans - Standardized	Letter Serial No.: D247610B	Plan No.: 002	Basic Plan No.: 03
Money Purchase Plans - Plus	Letter Serial No.: D347611B	Plan No.: 001	Basic Plan No.: 01

Money Purchase Plans - Standardized	Letter Serial No.: D247612B	Plan No.: 002	Basic Plan No.: 01
Target Plans - Plus	Letter Serial No.: D360921A	Plan No.: 005	Basic Plan No.: 01
Target Plans - Standardized	Letter Serial No.: D260922A	Plan No.: 006	Basic Plan No.: 01

ARTICLE I: The following is added to the definition of PAY:

In addition to other applicable limitations set forth in the plan, and notwithstanding any other provision of the plan to the contrary, for plan years beginning on or after January 1, 1994, the annual pay of each employee taken into account under the plan shall not exceed the OBRA `93 annual pay limit. The OBRA '93 annual pay limit is $150,000, as adjusted by the Commissioner for increases in the cost of living in accordance with section 401(a)(17)(B) of the Internal Revenue Code. The cost-of-living adjustment in effect for a calendar year applies to any period, not exceeding 12 months, over which pay is determined (determination period) beginning in such calendar year. If a determination period consists of fewer than 12 months, the OBRA `93 annual pay limit will be multiplied by a fraction, the numerator of which is the number of months in the determination period, and the denominator of which is 12.

For plan years beginning on or after January 1, 1994, any reference in this plan to the limitation under section 401(a)(17) of the Code shall mean the OBRA `93 annual pay limit set forth in this provision.

If pay for any prior determination period is taken into account in determining an employee's benefits accruing In the current plan year, the pay for that prior determination period is subject to the OBRA `93 annual pay limit in effect for that prior determination period. For this purpose, for determination periods beginning before the first day of the first plan year beginning on or after January 1, 1994, the OBRA `93 annual pay limit is $150,000.

Executed by PRINCIPAL MUTUAL LIFE INSURANCE COMPANY on

April 8 , 1994 by

/s/ Roger Jacobsen

UNILATERAL AMENDMENT - MODEL AMENDMENT TO COMPLY WITH
SECTION 401(A)(31) OF THE INTERNAL REVENUE CODE
AS ADDED BY THE UNEMPLOYMENT COMPENSATION AMENDMENTS OF 1992

Principal Mutual Life Insurance Company hereby amends, effective as of January 1, 1993, the following prototype plans and by such amendment, amends each retirement plan set forth on any such prototype by an adopting employer:

The Principal Financial Group Prototype for:

Profit Sharing Plans - Plus	Letter Serial No.: D347613B	Plan No.: 003	Basic Plan No.: 01
Profit Sharing Plans - Standardized	Letter Serial No.: D247614B	Plan No.: 004	Basic Plan No.: 01
Savings Plans - Plus	Letter Serial No.: D347609B	Plan No.: 001	Basic Plan No.: 03
Savings Plans - Standardized	Letter Serial No.: D247610B	Plan No.: 002	Basic Plan No.: 03
Money Purchase Plans - Plus	Letter Serial No.: D347611B	Plan No.: 001	Basic Plan No.: 01
Money Purchase Plans - Standardized	Letter Serial No.: D247612B	Plan No.: 002	Basic Plan No.: 01
Target Plans - Plus	Letter Serial No.: D360921A	Plan No.: 005	Basic Plan No.: 01
Target Plans - Standardized	Letter Serial No.: D260922A	Plan No.: 006	Basic Plan No.: 01
Defined Benefit Plans - Nonintegrated	Letter Serial No.: D359699A	Plan No.: 002	Basic Plan No.: 02
Defined Benefit Plans - Integrated	Letter Serial No.: D359698A	Plan No.: 001	Basic Plan No.: 02

ARTICLE I: The following words and phrases are added to the DEFINITIONS section of Article I:

Direct Rollover: A Direct Rollover is a payment by the Plan to the Eligible Retirement Plan specified by the Distributee.

Distributee: A Distributee includes an Employee or former Employee. In addition, the Employees' or former Employee's surviving spouse and the Employee's or former Employee's spouse or former spouse who is the alternate payee under a qualified domestic relations order, as defined in section 414(p) of the Code, are Distributees with regard to the interest of the spouse or former spouse.

Eligible Retirement Plan: Eligible Retirement Plan is an individual retirement account described in section 408(a) of the Code, an individual retirement annuity described in section 408(b) of the Code, an annuity plan described in

section 403(a) of the Code, or a qualified trust described in section 401(a) of the Code, that accepts the Distributee's Eligible Rollover Distribution. However, in the case of an Eligible Rollover Distribution to the surviving spouse, an Eligible Retirement Plan is an individual retirement account or individual retirement annuity.

Eligible Rollover Distribution: An Eligible Rollover Distribution is any distribution of all or any portion of the balance to the credit of the Distributee, except that an Eligible Rollover Distribution does not include: any distribution that is one of a series of substantially equal periodic payments (not less frequently than annually) made for the life (or life expectancy) of the Distributee or the joint lives (or joint life expectancies) of the Distributee and the Distributee's designated Beneficiary, or for a specified period of ten years or more; any distribution to the extent such distribution is required under section 401(a)(9) of the Code; and the portion of any distribution that is not includible in gross income (determined without regard to the exclusion for net unrealized appreciation with respect to employer securities).

ARTICLE IX: The following section is added as SECTION 9.01A - DIRECT ROLLOVERS:

This section applies to distributions made on or after January 1, 1993. Notwithstanding any provision of the Plan to the contrary that would otherwise limit a Distributee's election under this section, a Distributee may elect, at the time and in the manner prescribed by the Plan Administrator, to have any portion of an Eligible Rollover Distribution paid directly to an Eligible Retirement Plan, specified by the Distributee in a Direct Rollover.

Executed by PRINCIPAL MUTUAL LIFE INSURANCE

COMPANY on January 11 , 1993 by

/s/ Owen M. Westman

Officer

ADDENDUM TO: SYNAPTICS, INC. 401(k) SAVINGS PLAN

GA 4-43003

The following benefits were included in your prior plan and are being removed as of the amendment/restatement date. According to Section 411(d)(6) of the Internal Revenue Code benefits listed below shall be available to all member account balances accrued prior to this date. This addendum is for informational purposes only and not a part of the plan document.

PROTECTED BENEFIT	PRIOR PLAN EFFECTIVE DATE	PRIOR PLAN ARTICLE; SECTION; PAGE	AMENDMENT/RESTATEMENT EFFECTIVE DATE
Normal Retirement is the DATE member attains normal retirement age	7-1-91	Adoption Agreement Article V, Sec 5.01b, pg14	7-1-00
Payout in Installments	7-1-91	Plan Article VI, sec 6.02	7-1-00
In Kind distributions- ability to distribute retirement funds in a manner other than cash	7-1-91	Plan Article VI, sec 6.03	7-1-00
Immediate payout of QDROs	7-1-91	Plan Article VI, sec 6.07	7-1-00

1

EXHIBIT 10.9

AGREEMENT

dated as of

October 13, 1999

by and among

SYNAPTICS, INCORPORATED,

and

THE PRINCIPAL SHAREHOLDERS OF
ABSOLUTE SENSORS LIMITED

2

TABLE OF CONTENTS

AGREEMENT

THIS AGREEMENT (this "Agreement") is made and entered into as of the 13th day of October, 1999 (the "Effective Date"), by and among Synaptics, Incorporated, a California corporation ("Synaptics" or "Offeror"), and certain principal shareholders of Absolute Sensors Limited, a corporation incorporated under the laws of England (the "Company"), listed on Exhibit A (each individually, a "Principal Shareholder" and collectively, the "Principal Shareholders"). The Offeror and Principal Shareholders are collectively referred to as the "Parties."

RECITALS

1. The Company is in the business of the design, manufacturing, marketing and sale of pen input solutions for portable information devices such as computers, personal digital assistants and telephones incorporating inductive sensing technology known as Spiral technology and similar technology.

2. The Principal Shareholders own the number of outstanding Ordinary Shares of the Company listed beside their names on Exhibit A. All of the remaining outstanding shares of the Company's capital stock and securities convertible into or exercisable for shares of the Company's capital stock are also listed on Exhibit A and are owned or will be owned at the Closing

Date by the shareholders and option holders listed on Exhibit A. These shareholders, together with the Principal Shareholders, are defined as the "Shareholders" under this Agreement.

3. Offeror wishes to offer (the "Offer") to purchase from all Shareholders all of the outstanding Ordinary Shares of the Company held by them as of the Closing on the terms and conditions set forth in the general offer memorandum referred to in Section 10.3 below and attached to this Agreement as Exhibit B (the "Offer Document").

4. The Principal Shareholders wish to undertake to accept the Offer in respect of all of the outstanding Ordinary Shares of the Company held by them as of the Closing on the terms and conditions set forth in the Offer Document.

5. The Offer does not extend to any securities convertible into or exercisable for shares of the Company's capital stock and all such securities shall have been terminated as of the Closing.

6. The Parties intend that the transactions contemplated hereby and by the Offer Document will not constitute a plan of reorganization under the provisions of Section 368(a) of the U.S. Internal Revenue Code of 1986, as amended (the "Code") as it is intended that the transactions will constitute a taxable stock purchase for U.S. tax purposes.

7. Offeror intends to make an election under Section 338(g) of the Code and similar provisions of applicable state laws.

AGREEMENT

In consideration of the mutual promises, agreements, warranties and provisions contained in this Agreement, the Parties agree as follows:

SECTION 1

TERMS OF THE OFFER.

1.1 ISSUE OF SYNAPTICS' STOCK AND CASH CONSIDERATION. Subject to the terms and conditions of this Agreement, Offeror agrees to issue the Offer Document forthwith pursuant to when it will offer to purchase ("the Purchase") at the Closing (as defined below), all of the Ordinary Shares of the Company outstanding as of the Closing (the "Shares") (which Shares shall constitute all of the outstanding capital stock of the Company as of the Closing) for an aggregate purchase price (assuming that the Offer is accepted in respect of all of the Shares) of (a) $1,450,000 in cash denominated in U.S. Dollars (the "Cash Consideration") and (b) 832,000 shares of Synaptics' Common Stock (subject to adjustment to reflect fully the effect of any stock split, reverse split or stock dividend and subject to increase as a result of Section 1.4 below) (the "Synaptics' Stock"). Subject to the terms and conditions of this Agreement, the Principal Shareholders agree forthwith to accept the Offer in respect of all of the Ordinary Shares of the Company held by them as of the Closing for the Cash Consideration Per Share and Synaptics' Stock Per Share set forth in Section 1.2 below.

1.2 SYNAPTICS' STOCK AND CASH CONSIDERATION PER SHARE. Subject to the terms and conditions of this Agreement, each Shareholder will be entitled to receive at the Closing, and at such later times as specified in this Agreement, (i) that portion of the Cash Consideration payable at the relevant time, rounded to the nearest cent, equal to the Cash Consideration divided by the aggregate number of Shares outstanding as of the Closing (the "Cash Consideration Per Share"), and (ii) that number of shares of Synaptics' Stock deliverable at the relevant time equal to the total number of shares of Synaptics' Stock divided by the aggregate number of Shares outstanding as of the Closing (the "Synaptics' Stock Per Share") and multiplied in each case by the number of Shares in respect of which the relevant Shareholder has accepted the Offer.

1.3 TERMINATION OF OPTIONS. It is a condition of the Offeror's obligation to effect the Purchase that effective immediately prior to the Closing and contingent upon consummation of the Purchase, all options, warrants and

other rights to purchase shares of the Company's capital stock that have not been exercised as of the Closing (other than those granted to Competitive Technologies, Inc.) and obligations to issue shares or options to employees under any bonus scheme of the Company shall terminate without any action on the part of the holder thereof. In addition, as of the Closing, the outstanding capital stock of the Company shall consist solely of Ordinary Shares held by the Shareholders.

1.4 FRACTIONAL SHARES. No fraction of a share of Synaptics' Stock will be issued to a Shareholder under this Agreement. Instead each Shareholder shall receive such number of shares of Synaptics' Stock determined by aggregating all fractional shares

of Synaptics' Stock to which the Shareholder would otherwise be entitled, and then rounding up to the nearest whole share.

1.5 TAKING OF NECESSARY ACTION; FURTHER ACTION. If at any time after the date of this Agreement, any further action is necessary or desirable to carry out the purposes of this Agreement and to vest the Offeror with full right, title and possession to all assets, property, rights, privileges, powers and franchises of the Company as of the Closing, each Principal Shareholder shall take all such lawful and necessary action, so long as such action is not inconsistent with this Agreement and so long as the .Principal Shareholder has the power to take such action.

1.6 ACCEPTANCE OF OFFER. The Principal Shareholders hereby undertake to accept the Offer in respect of all of the outstanding Ordinary Shares of the Company held by them as of the Closing on the terms and conditions set forth in the Offer Document.

SECTION 2

CLOSING

2.1 CLOSING DATE. Unless this Agreement is earlier terminated pursuant to Section 9, the closing of the purchase pursuant to the Offer (the "Closing") shall be held at the offices of Venture Law Group, 2800 Sand Hill Road, Menlo Park, CA 94025 at 4:00 p.m. California time on the date upon which the Offer becomes or is declared unconditional in all respects, unless another time and place is agreed upon between the Principal Shareholders' Representative and the Offeror orally or in writing, such time and date being referred to herein as the "Closing Date."

2.2 ACTIONS AT THE CLOSING. At the Closing, the Principal Shareholders and Offeror shall take such actions and execute and deliver such agreements and other instruments and documents as necessary or appropriate to effect the transactions contemplated by this Agreement in accordance with its terms, including without limitation the following:

(a) The Offer shall have become or been declared unconditional pursuant to the terms of the Offer Document;

(b) Each of the Principal Shareholders shall procure that The Generics Group AG will deliver to Offeror a duly executed Deed of Tax Covenant in the form attached hereto as Exhibit C (the "Deed of Tax Covenant");

(c) The Principal Shareholders will deliver an updated Balance Sheet of the Company in a form reasonably acceptable to Offeror dated as of a date as close as reasonably practicable to the Closing Date;

(d) Offeror, certain of the Principal Shareholders of the Company and certain other entities listed on Exhibit A to the Agreement shall enter into a Deed of Non-Competition in the form attached hereto as Exhibit D (the "Deed of Non-Competition");

(e) The Principal Shareholders shall cause a board meeting of the Company to be held at which:

(i) the transfers of the Shares which have been acceded to the Offeror will be approved for registration (subject to their being duly stamped, which shall be at the cost of the Offeror);

(ii) resignation letters of all directors (except for Ian Collins and David Ely) and the secretary of the Company will be tendered and accepted so as to take effect at the close of the meeting;

(iii) all persons nominated by the Offeror (in the case of directors subject to any maximum number imposed by the relevant articles of association) will be appointed directors and secretary;

(iv) all existing instructions and authorities to bankers will be revoked and will be replaced with alternative instructions, mandates and authorities in such form as the Offeror may require;

(v) the accounting reference date will be changed to June 30; and

(vi) Ernst & Young will be appointed auditors.

(f) The Principal Shareholders shall procure delivery to the Offeror's UK Counsel, CMS Cameron McKenna, of the Company's statutory books.

2.3 PAYMENT OF CASH CONSIDERATION. The payment of the Cash Consideration set forth below shall be allocated among the Shareholders pursuant to the formula set forth in Section 1.2 above (and subject to Section 12.13):

(a) An aggregate of $450,000 of the Cash Consideration shall be paid to the Shareholders at the Closing; and

(b) An aggregate of $1,000,000 of the Cash Consideration shall be paid to the Shareholders on the six month anniversary of the Closing Date.

2.4 ISSUANCE OF SYNAPTICS' STOCK. The issuance of shares of Synaptics' Stock set forth below Shall be allocated among the Shareholders pursuant to the formula set forth in Section 1.2 above:

(a) An aggregate of 632,000 shares of Synaptics' Stock (subject to adjustment to reflect fully the effect of any stock split, reverse split or stock dividend and subject to increase as a result of Section 1.4 above) shall be issued to the Shareholders at the Closing; and

(b) Subject to the conditions set forth below, at the times specified below after the Closing, an aggregate of up to 200,000 shares of Synaptics' Stock (subject to adjustment to reflect fully the effect of any stock split, reverse split or stock dividend and subject to increase as a result of Section 1.4 above) shall be delivered (subject to the Escrow provisions provided below and in Section 8) to the Shareholders in accordance with the following formula: For each Company product sold for the PDA/Windows CE/mobile communications market over the twenty-four (24) month period following the Closing Date which incorporates Spiral technology, as determined by Offeror in good faith

(the Principal Shareholders Representative having the right, upon reasonable notice to Offeror, to review the determination by Offeror and to examine such books and records of Offeror as shall be reasonably necessary to conduct such review), the Shareholders will in the aggregate be entitled to one share of Synaptics' Stock, up to a maximum of 200,000 shares (subject to adjustment to reflect fully the effect of any stock split, reverse split or stock dividend);

provided, however that the Offeror will not be required to deliver shares of Synaptics' Stock more frequently than once during each six (6) month period following the Closing. Notwithstanding the foregoing, until the Escrow Termination Date, all shares of Synaptics' Stock that each Principal Shareholder is entitled to receive under this Section 2.4(b) shall be deposited by Offeror into the Escrow Fund. Synaptics shall have the right at any time to waive the conditions set forth in this Section 2.4(b) and issue to the Shareholders all remaining Shares which have not already been issued to the Shareholders under this Section 2.4(b) and to deposit all Shares to be issued under this Section 2.4(b) to the Principal Shareholders into the Escrow Fund prior to the Escrow Termination Date.

SECTION 3

SECURITIES LAW COMPLIANCE

3.1 SECURITIES ACT EXEMPTION. The Synaptics' Stock to be issued pursuant to the Offer shall not be registered under the Securities Act of 1933, as amended ("Securities Act"), and is being issued in reliance upon the exemption contained in Regulation S of the Securities Act, or such other exemptions as may be available, and in reliance upon the representations and warranties of the Shareholders contained in the Offer Document.

3.2 STOCK RESTRICTIONS. The certificates representing the shares of Synaptics' Stock issued pursuant to the Offer shall bear a restrictive legend or legends (and stop transfer orders shall be placed against the transfer thereof with Offeror's transfer agent), stating substantially as follows:

(a) "THESE SECURITIES HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933. THEY MAY NOT BE SOLD, OFFERED FOR SALE, PLEDGED OR HYPOTHECATED EXCEPT (i) IN COMPLIANCE WITH REGULATION S UNDER THE ACT, (ii) PURSUANT TO A REGISTRATION STATEMENT IN EFFECT WITH RESPECT TO THE SECURITIES UNDER SUCH ACT OR (iii) PURSUANT TO AN AVAILABLE EXEMPTION UNDER SUCH ACT AND, IF REQUESTED BY THE COMPANY, AFTER DELIVERY OF AN OPINION OF COUNSEL SATISFACTORY TO THE COMPANY THAT SUCH TRANSACTION IS SO EXEMPT. HEDGING TRANSACTIONS INVOLVING THESE SECURITIES MAY NOT BE CONDUCTED UNLESS IN COMPLIANCE WITH THE ACT."

(b) Any legend required by the securities laws of any state.

3.3 CORPORATE SECURITIES LAW. THE SALE OF THE SECURITIES WHICH ARE THE SUBJECT OF THIS AGREEMENT HAS NOT BEEN QUALIFIED WITH THE COMMISSIONER OF CORPORATIONS OF THE STATE OF CALIFORNIA, AND THE ISSUANCE OF SUCH SECURITIES OR THE PAYMENT OR RECEIPT OF ANY PART OF THE CONSIDERATION THEREFOR PRIOR TO SUCH QUALIFICATION IS UNLAWFUL UNLESS THE SALE OF SECURITIES IS EXEMPT FROM THE QUALIFICATION BY SECTION 25100, 25102 OR 25105 OF THE CALIFORNIA CORPORATIONS CODE. THE RIGHTS OF ALL PARTIES TO THIS AGREEMENT ARE EXPRESSLY CONDITIONED UPON SUCH QUALIFICATION BEING OBTAINED, UNLESS THE SALE IS SO EXEMPT.

SECTION 4

REPRESENTATIONS AND WARRANTIES OF THE PRINCIPAL SHAREHOLDERS REGARDING THE COMPANY

In this Agreement, any reference to any event, change, condition or effect being "material" with respect to any entity or group of entities means any material event, change, condition or effect related to the condition (financial or otherwise), properties, assets (including intangible assets), liabilities, business, operations, results of operations or prospects of such entity or group of entities. In this Agreement, any reference to a "Material Adverse Effect" with respect to any entity or group of entities means any event, change or effect that, when taken individually or together with all other adverse changes and effects, is or is reasonably likely to be materially adverse to the condition (financial or otherwise), properties, assets, liabilities, business, operations, results of or prospects of such entity and its subsidiaries, taken as a whole, or to prevent or materially delay consummation of the transactions

contemplated under this Agreement or otherwise to prevent such entity and its subsidiaries from performing their obligations under this Agreement.

In this Agreement, any reference to a party's "knowledge" means such party's actual knowledge after due and diligent inquiry of officers, directors and other employees of such party reasonably believed to have knowledge of such matters.

Except as disclosed in a document of the same date as this Agreement and delivered by the Principal Shareholders to Offeror prior to the execution and delivery of this Agreement and referring to the representations and warranties in this Agreement (the "Company Disclosure Schedule"), each Principal Shareholder in consideration of the Offeror agreeing to make the Offer and issue the Offer Document hereby jointly and severally represents and warrants to Offeror as follows:

4.1 ORGANIZATION STANDING AND POWER; SUBSIDIARIES. The Company is a corporation duly organized, validly existing and in good standing under the laws of England, and each subsidiary of the Company, if any, (each a "Subsidiary") is a corporation duly organized, validly existing and in good standing under the laws of its jurisdiction of organization. Each of the Company and each Subsidiary has the requisite corporate power and authority and all necessary government approvals to own, lease and operate its properties and to carry on its business as now being conducted and as proposed to be conducted, except where the failure to have such power, authority and

governmental approvals would not, individually or in the aggregate, have a Material Adverse Effect on the Company. Each of the Company and each Subsidiary is duly qualified or licensed as a foreign corporation to do business, and is in good standing, in each jurisdiction where the character of the properties owned, leased or operated by it or the nature of its business makes such qualification or licensing necessary, except for such failures to be so qualified or licensed and in good standing that would not, individually or in the aggregate, have a Material Adverse Effect on the Company. A true and complete list of all the Subsidiaries, together with the jurisdiction of incorporation of each Subsidiary, is set forth in Section 4.1 of the Company Disclosure Schedule. The Company is the owner of all outstanding shares of capital stock of each Subsidiary and all such shares are duly authorized, validly issued, fully paid and nonassessable. All of the outstanding shares of capital stock of each Subsidiary are owned by the Company free and clear of all liens, charges, claims or encumbrances or rights of others. There are no outstanding subscriptions, options, warrants, puts, calls, rights, exchangeable or convertible securities or other commitments or agreements of any character relating to the issued or unissued capital stock or other securities of any Subsidiary, or otherwise obligating the Company or any Subsidiary to issue, transfer, sell, purchase, redeem or otherwise acquire any such securities. Except as set forth in the Company Disclosure Schedule, the Company does not directly or indirectly own any equity or similar interest in, or any interest convertible into or exchangeable or exercisable for, any equity or similar interest in, any corporation, partnership, limited liability company, joint venture or other business association or entity.

4.2 ARTICLES OF ASSOCIATION. The Principal Shareholders have delivered a true and correct copy of the Memorandum and Articles of Association and all other charter documents, as applicable, of the Company and each Subsidiary, each as amended to date, to Offeror. Neither the Company nor any Subsidiary is in violation of any of the provisions of its Memorandum or Articles of Association or equivalent organizational documents.

4.3 CAPITAL STRUCTURE. The authorized capital stock of the Company consists of 2,000,000 Ordinary Shares, of which there were issued and outstanding as of the Effective Date 739,276 Ordinary Shares. There are no other outstanding shares of capital stock or voting securities and no outstanding commitments to issue any shares of capital stock or voting securities other than pursuant to the exercise of options outstanding as of the Effective Date to purchase Ordinary Shares under the Company's S01 and SO2 Share Option Scheme (the "Company Stock Option Plan"). All outstanding shares of the Company's capital stock are duly authorized,

validly issued, fully paid and non-assessable and are free of any liens or encumbrances other than any liens or encumbrances created by or imposed upon the holders thereof, and are not subject to preemptive rights or rights of first refusal created by statute, the Articles of Association of the Company or any agreement to which the Company is a party or by which it is bound. All outstanding Ordinary Shares and options to purchase Ordinary Shares of the Company were issued in compliance with all applicable UK and U.S. federal and state securities laws. As of the close of business on the Effective Date, options to purchase 130,858 Ordinary Shares pursuant to the Company Stock Option Plan were outstanding. Section 4.3 of the Company Disclosure Schedule sets forth the number of outstanding options and all other rights

to acquire shares of the Company's capital stock pursuant to the Company Stock Option Plan or otherwise and the exercise price therefor. Except (i) for the rights created pursuant to this Agreement, (ii) for the Company's right to repurchase any unvested shares under the Company Stock Option Plan and (iii) as set forth in this Section 4.3 and Section 4.3 of the Company Disclosure Schedule, there are no options, warrants, calls, rights, commitments, agreements or arrangements of any character to which the Company or any Subsidiary is a party or by which the Company or any Subsidiary is bound relating to the issued or unissued capital stock of the Company or any Subsidiary or obligating the Company or any Subsidiary to issue, deliver, sell, repurchase or redeem, or cause to be issued, delivered, sold, repurchased or redeemed, any shares of capital stock of the Company or any Subsidiary or obligating the Company or any Subsidiary to grant, extend, accelerate the vesting of, change the price of, or otherwise amend or enter into any such option, warrant, call, right, commitment or agreement. There are no contracts, commitments or agreements relating to voting, purchase or sale of the Company's capital stock (i) between or among the Company and any of its shareholders and (ii) to the actual knowledge (having made no independent inquiry) of the Principal Shareholders', between or among any of the Company's shareholders. The terms of all outstanding stock options of the Company provide, or will provide, as of the Closing, that such options shall terminate effective immediately prior to the Closing Date. True and complete copies of all agreements and instruments relating to or issued under the Company Stock Option Plan have been made available to Offeror and such agreements and instruments have not been amended, modified or supplemented, and there are no agreements to amend, modify or supplement such agreements or instruments in any case from the form made available to Offeror, except that Offeror understands such agreements will be amended to provide that the options to purchase the Company's Ordinary Shares shall terminate upon the Closing without any further action of the option holder.

4.4 AUTHORITY. [INTENTIONALLY OMITTED].

4.5 NO CONFLICTS; REQUIRED FILINGS AND CONSENTS.

(a) The execution and delivery of this Agreement by the Principal Shareholders does not, and the consummation of the transactions contemplated hereby and by the Offer Document will not, conflict with, or result in any violation of, or default under (with or without notice or lapse of time, or both), or give rise to a right of termination, cancellation or acceleration of any obligation or loss of any benefit under (i) any provision of the Articles of Association of the Company or its Subsidiaries, as amended, or (ii) any material mortgage, indenture, lease, contract or other agreement or instrument, permit, concession, franchise, license, judgment, order, decree, statute, law, ordinance, role or regulation applicable to the Company or any Subsidiary or any of their properties or assets.

(b) No consent, approval, order or authorization of, or registration, declaration or filing with, any court, administrative agency or commission or other governmental authority or instrumentality ("Governmental Entity") is required by or with respect to the Company or any Subsidiary in connection with the

execution and delivery of this Agreement or the consummation of the transactions contemplated hereby or by the Offer Document, except for (i) such consents, approvals, orders, authorizations, registrations, declarations and filings as may be required under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), the Securities Act of 1933, as amended (the "Securities Act"), applicable state securities laws and the securities laws of any foreign country; (ii) such other consents, authorizations, filings, approvals and registrations which, if not obtained or made, would not have a Material Adverse Effect on the Company and would not prevent, or materially alter or delay any of the transactions contemplated by this Agreement.

4.6 FINANCIAL STATEMENTS. Section 4.6 of the Company Disclosure Schedule includes a true, correct and complete copy of the Company's audited financial statements for the fiscal year ended December 31, 1998, (the "Audited Financial Statements") and its unaudited financial statements (balance sheet, profit and loss account and statement of cash flows) on a consolidated basis as at, and for the nine month period ended September 30, 1999 (the "Unaudited Financial Statements") (collectively, the "Financial Statements"). The Audited Financial Statements have been prepared in accordance with the SSAPs, the legal principles set out in Schedules 4 and 4A CA 85, rulings and abstracts of the Urgent Issues Task Force of the Accounting Standards Board Limited and guidelines, conventions, rules and procedures of accounting practice in the United Kingdom which are regarded as permissible by the Accounting Standards Board Limited ("UK GAAP") applied on a consistent basis throughout the periods indicated and with each other. The Audited Financial Statements accurately set out and describe the financial condition and operating results of the Company and its consolidated Subsidiaries as of the dates, and for the periods, indicated therein, subject to normal year-end audit adjustments. The Unaudited Financial Statements have been prepared on the same basis as the Audited Financial Statements and using the same accounting policies as were used in the preparation of the Audited Financial Statements and show a materially accurate view of the assets and liabilities and trading position of the Company. The Company has maintained a standard system of accounting established and administered in accordance with UK GAAP.

4.7 ABSENCE OF UNDISCLOSED LIABILITIES. Neither the Company nor any Subsidiary has material obligations or liabilities of any nature (matured or matured, fixed or contingent) in excess of $25,000 individually or in the aggregate other than (i) those set forth or adequately provided for in the Balance Sheet for the period ended September 30, 1999 (the "Company Balance Sheet"), and (ii) those incurred in the ordinary course of business since the Company Balance Sheet Date and consistent with past practice.

4.8 ABSENCE OF CERTAIN CHANGES. Except as set forth in Section 4.8 of the Company Disclosure Schedule, since September 30, 1999 (the "Company Balance Sheet Date") there has not been, occurred or arisen any:

(a) transaction by the Company or any Subsidiary except in the ordinary course of business as conducted on that date and consistent with past practices;

(b) amendments or changes to the Articles of Association of the Company, except as required under this Agreement;

(c) capital expenditure or commitment by the Company or any Subsidiary, in any individual amount or in the aggregate exceeding $25,000;

(d) destruction of, damage to, or loss of any assets (including, without limitation, intangible assets), business or customer of the Company or any Subsidiary (whether or not covered by insurance) which would constitute a Material Adverse Effect;

(e) labor trouble or claim of wrongful dismissal or other unlawful labor practice or action;

(f) change in accounting methods or practices (including any change in depreciation or amortization policies or rates, any change in policies in making or reversing accruals) by the Company;

(g) revaluation by the Company or any Subsidiary of any of their respective assets;

(h) declaration, setting aside, or payment of a dividend or other distribution in respect to the capital stock of the Company, or any direct or indirect redemption, purchase or other acquisition by the Company of any of its capital stock, except repurchases of the Company Common Stock from terminated Company employees or consultants at the original per share purchase price of such shares;

(i) sale, lease, license or other disposition of any of the assets or properties of the Company or any Subsidiary, except in the ordinary course of business and not in excess of $25,000, in the aggregate;

(j) termination or material amendment of any material contract, agreement or license (including any distribution agreement) to which the Company or any Subsidiary is a party or by which it is bound;

(k) loan by the Company or any Subsidiary to any person or entity, or guaranty by the Company or any Subsidiary of any loan, except for (i) travel or similar advances made to employees in connection with their employment duties in the ordinary course of business, consistent with past practices and (ii) trade payables not in excess of $25,000 in the aggregate and in the ordinary course of business, consistent with past practices;

(l) waiver or release of any right or claim of the Company or any Subsidiary, including any write-off or other compromise of any account receivable of the Company or any Subsidiary, in excess of $25,000 in the aggregate;

(m) commencement or notice or threat of commencement of any lawsuit or proceeding against or, to the Company's directors' or the Principal Shareholders' knowledge, investigation of the Company or any Subsidiary or their respective affairs;

(n) notice of any claim of ownership by a third party of the Company's or any Subsidiary's Intellectual Property (as defined in Section 4.13 below) or of

infringement by the Company or any Subsidiary of any third party's Intellectual Property rights;

(o) issuance or sale by the Company or any Subsidiary of any of its shares of capital stock, or securities exchangeable, convertible or exercisable therefor, or of any other of its securities;

(p) change in pricing or royalties set or charged by the Company or any Subsidiary to its customers or licensees or in pricing or royalties set or charged by persons who have licensed Intellectual Property to the Company or any Subsidiary;

(q) any event or condition of any character that has or could reasonably be expected to have a Material Adverse Effect on the Company; or

(r) agreement by the Company, any Subsidiary or any officer or employee of either on behalf of such entity to do any of the things described in the preceding clauses (a) through (q) (other than negotiations with Offeror and its representatives regarding the transactions contemplated by this Agreement).

4.9 LITIGATION. There is no private or governmental action, suit, proceeding, claim, arbitration or investigation pending before any agency, court or

tribunal, foreign or domestic, or, to Principal Shareholders' knowledge, threatened against the Company or any Subsidiary or any of their respective properties or any of their respective officers or directors (in their capacities as such). There is no judgment, decree or order against the Company or any Subsidiary or, to the Principal Shareholders' knowledge, any of their respective directors or officers (in their capacities as such), including any judgment, decree or order that could prevent, enjoin, or materially alter or delay any of the transactions contemplated by this Agreement. All litigation to which the Company is a party (or, to the knowledge of the Principal Shareholders, threatened to become a party) is disclosed in the Company Disclosure Schedule.

4.10 RESTRICTIONS ON BUSINESS ACTIVITIES. There is no agreement, judgment, injunction, order or decree binding upon the Company or any Subsidiary which has or could reasonably be expected to have the effect of prohibiting or materially impairing any current or future business practice of the Company or any Subsidiary, any acquisition of property by the Company or any Subsidiary or the overall conduct of business by the Company or any Subsidiary as currently conducted or as proposed to be conducted by the Company or by any Subsidiary. Neither the Company nor any Subsidiary has entered into any agreement under which the Company or any Subsidiary is restricted from selling, licensing or otherwise distributing any of its products to any class of customers, in any geographic area, during any period of time or in any segment of the market.

4.11 PERMITS; COMPANY PRODUCTS; REGULATION.

(a) Each of the Company and each Subsidiary is in possession of all franchises, grants, authorizations, licenses, permits, easements, variances, exceptions, consents, certificates, approvals and orders necessary for the Company or that Subsidiary, to own, lease and operate its properties or to carry on its business as it is now being conducted (the "Company Authorizations") and no

suspension or cancellation of any Company Authorization is pending or, to the Principal Shareholders' knowledge, threatened, except where the failure to have, or the suspension or cancellation of, any Company Authorization would not have a Material Adverse Effect on the Company. Neither the Company nor any Subsidiary is in conflict with, or in default or violation of, (i) any laws applicable to the Company or any Subsidiary or by which any property or asset of the Company or any Subsidiary is bound or affected, (ii) any Company Authorization or (iii) any note, bond, mortgage, indenture, contract, agreement, lease, license, permit, franchise or other instrument or obligation to which the Company or any Subsidiary is a party or by which the Company or any Subsidiary or any property or asset of the Company or any Subsidiary is bound or affected, except for any such conflict, default or violation that would not, individually or in the aggregate have a Material Adverse Effect on the Company.

(b) Except as would not have a Material Adverse Effect on the Company, there have been no written notices, citations or decisions by any governmental or regulatory body that any product produced, manufactured, marketed or distributed at any time by the Company or any Subsidiary (the "Products") is defective or fails to meet any applicable standards promulgated by any such governmental or regulatory body. To the knowledge of the Principal Shareholders, the Company has complied in all material respects with the laws, regulations, policies, procedures and specifications with respect to the design, manufacture, labeling, testing and inspection of the Products. Except as disclosed in Section 4.11(b) of the Company Disclosure Schedule, there have been no recalls, field notifications or seizures ordered or, to the Principal Shareholders' knowledge, threatened by any such governmental or regulatory body with respect to any of the Products.

(c) The Company has obtained, in all countries where either the Company or a Subsidiary is marketing or has marketed its Products, all applicable licenses, registrations, approvals, clearances and

authorizations required by local, state or federal agencies in such countries regulating the safety, effectiveness and market clearance of the Products currently or previously marketed by the Company or any Subsidiary in such countries, except for any such failures as would not, individually or in the aggregate, have a Material Adverse Effect on the Company. The Principal Shareholders have identified and made available for examination by Offeror all information relating to regulation of its Products, including licenses, registrations, approvals, permits, device listing, inspections, the Company's recalls and product actions, audits and the Company's ongoing field tests. The Principal Shareholders have identified in writing to Offeror all international locations where regulatory information and documents are kept.

4.12 TITLE TO PROPERTY.

(a) The Company and each Subsidiary has good and marketable title to all of its respective properties, interests in properties and assets, real and personal, reflected in the Company Balance Sheet or acquired after the Company

Balance Sheet Date (except properties, interests in properties and assets sold or otherwise disposed of since the Company Balance Sheet Date in the ordinary course of business), or with respect to leased properties and assets, valid leasehold interests in, free and clear of all mortgages, liens, pledges, charges or encumbrances of any kind or character, except (i) the lien of current taxes not yet due and payable, (ii) such imperfections of title, liens and easements as do not and will not materially detract from or interfere with the use of the properties subject thereto or affected thereby, or otherwise materially impair business operations involving such properties and (iii) liens securing debt which is reflected on the Company Balance Sheet. The plants, property and equipment of the Company and Subsidiaries that are used in the operations of their businesses are in good operating condition and repair. All properties used in the operations of the Company and its Subsidiaries are reflected in the Company Balance Sheet to the extent UK GAAP requires the same to be reflected.

(b) Section 4.12(b) of the Company Disclosure Schedule also sets forth a true, correct and complete list of all equipment, plant and machinery (including fixed plant and machinery) (the "Equipment") owned or leased by the Company and its Subsidiaries, and such Equipment is, taken as a whole, (i) adequate for the conduct of the Company's business, consistent with its past practice and (ii) in good operating condition (except for ordinary wear and tear).

(c) The Company has no liability (whether actual, contingent or otherwise) as tenant, assignee, guarantor, covenantor or otherwise arising from or relating to any estate, interest or right in any land other than the real properties of which short particulars are set out in Section 4.12(c) of the Company Disclosure Schedule (the "Properties," and "Property" shall be construed accordingly). The Company has a good and marketable title to each Property for the estate or interest set out in Section 4.12(c) of the Company Disclosure Schedule, free from any mortgages or charges, any agreements for sale or lease, options or rights of pre-emption and any covenants, restrictions, stipulations, easements or other encumbrances which materially adversely affect the use, enjoyment or value of the Property. Any leases, underleases, tenancies, licenses or other agreements or arrangements giving rise to rights of occupation to which any Property is subject (the "Letting Documents") are referred to in Section 4.12(c) of the Company Disclosure Schedule. Otherwise the Company is in actual occupation of each of the Properties on an exclusive basis and, except by virtue of the Letting Documents, no person, other than the Company, has any right (actual or contingent) to possession, occupation or use of or interest in the Properties. The documents of title

relating to each Property consist of original documents or properly examined abstracts, all of which are in the possession of the Company or are unconditionally held to its order. Where necessary all title deeds are fully stamped with ad valorem stamp duty and a produced document stamp.

(d) Complete and accurate copies of all Leases and Letting Documents have been delivered to the Offeror and the Company has not committed any breach

thereof. The Company has complied in all material respects with all laws, regulations, restrictions, covenants and obligations (including all covenants binding the Company contained in any Lease or Letting Document) relating to the Property, the Company has not received any notice or allegation of any breach of such laws, regulations, restrictions, covenants or obligations from any person and there are no circumstances likely to give rise to the service of any such notice or allegation.

(e) There are appurtenant to the Property all rights and easements necessary for the use and enjoyment of the Property or (if there are no such rights and easements) none are required. There are adequate facilities and all necessary consents for the supply of all usual services to and the discharge of effluent from the Property. The Company has not had occasion to make any claim or complaint in relation to any neighboring property or its use or occupation and there are no disputes, claims, actions, demands or complaints which are outstanding or which are expected by the Company in relation to any Property and no notices materially affecting the Property have been given or received. The Property is not subject to any outgoings other than the uniform business rate or water rates (and sums due under any Lease including rent, insurance and service charge) and all such payments have been made to date.

(f) The current use of each Property is as set out in Section 4.12(c) of the Company Disclosure Schedule and is a lawful use under the Town and Country Planning Act 1990, the Planning (Listed Buildings and Conservation Areas) Act 1990, the Planning (Hazardous Substances) Act 1990, the Planning (Consequential Provisions) Act 1990 and the Planning and Compensation Act 1991 and all other statutes regulating the development, design, use and control of property, and is being and has been carried out in accordance with valid planning permissions. No enforcement proceedings have been commenced or notices served and no such proceedings or notices have been proposed.

(g) No planning permission contains unusual or otherwise unduly onerous conditions, is the subject of an existing challenge as to its validity or has been issued within the six months immediately before the date of this Agreement. There is no outstanding order, notice or other requirement of any local or other authority affecting the Property or involving expenditure in compliance with it nor any circumstances which may result in any such order or notice being made or served. All buildings and structures on the Properties are in good and substantial repair and condition. No buildings or structures have been constructed or extensions or major alternations carried out within the last six years.

(h) In relation to each Property where the Company's tenure is leasehold (i) any consents required for the grant of or under the covenants contained in the Lease have been obtained; (ii) the last installment of rent was paid to and was accepted by the landlord or its agents without qualification; (iii) All steps in rent reviews have been duly taken and no rent reviews are or should be currently under negotiation or the subject of a reference to an expert or arbitrator or the courts and, where appropriate, evidence of the agreement or

determination of the current rent has been placed with the documents of title; (iv) Sections 24 to 28 Landlord and Tenant Act 1954 have not been excluded in relation to the tenancy created by the Lease.

(i) In relation to each Property which is subject to Letting Documents (i) any consents required for the grant of or under the covenants contained in the Letting Documents have been obtained; (ii) all rent and additional rent, service charges or other payments under the Letting Documents have been paid to date and there is no subsisting breach of the covenants contained in the Letting Documents; (iii) the Property is not subject to any tenancy which is being continued after the contractual expiry date; (iv) in respect of every Letting Document which is not a new tenancy as defined in section 28 LTCA, the present tenant and each of its predecessors in title and any surety for any of them has given a covenant to the Company to observe and perform the obligations of the tenant throughout the term and no such persons have been released or are or may be entitled to be released.

4.13 INTELLECTUAL PROPERTY.

(a) The Company and each of its Subsidiaries own, or are licensed or otherwise possess legally enforceable rights to use all patents, patent rights, trademarks, trademark rights, trade names, trade name rights, service marks, copyrights, and any applications for any of the foregoing, mask works, mask work rights, net lists, schematics, industrial models, inventions, technology, know-how, trade secrets, inventory, ideas, algorithms, processes, computer software programs or applications (in both source code and object code form), and tangible or intangible proprietary information or material ("Intellectual Property") that are used or proposed to be used in the business of the Company or any Subsidiary as currently conducted or as proposed to be conducted by the Company or any Subsidiary.

(b) Section 4.13 of the Company Disclosure Schedule lists (i) all patents and patent applications and all registered and unregistered trademarks, trade names and service marks, copyrights, and mask work rights, included in the Intellectual Property, including the jurisdictions in which each such Intellectual Property right has been issued or registered or in which any application for such issuance and registration has been filed, all of which Intellectual Property has been validly assigned to the Company by Scientific Generics, Ltd., (ii) all licenses, sublicenses and other agreements to which the Company or any Subsidiary is a party and pursuant to which any person is authorized to use any Intellectual Property, and (iii) all licenses, sublicenses and other agreements as to which the Company or any Subsidiary is a party and pursuant to which the Company or any Subsidiary is authorized to use any third party patents, trademarks or copyrights, including software ("Third Party Intellectual Property Rights") which are incorporated in, are, or form a part of any products of the Company or any Subsidiary that are, individually or in the aggregate, material to the business of the Company or any Subsidiary. Neither the Company nor any Subsidiary is in violation of any license, sublicense or agreement described in Section 4.13 of the Company Disclosure Schedule.

The execution and delivery of this Agreement by the Company and the consummation of the transactions contemplated hereby, will neither cause the Company or any Subsidiary to be in violation or default under any such license, sublicense or agreement, nor entitle any other party to any such license, sublicense or agreement to terminate or modify such license, sublicense or agreement. Except as set forth in Section 4.13 of the Company Disclosure Schedule, the Company is the sole and exclusive owner or licensee of, with all right, title and interest in and to (free and clear of any liens), the Intellectual Property, and has sole and exclusive rights (and is not contractually obligated to pay any compensation to any third party in respect thereof) to the use thereof or the material covered thereby in connection with the services or products in respect of which Intellectual Property is being used.

(c) So far as the Principal Shareholders are aware, there is no material unauthorized use, disclosure, infringement or misappropriation of any Intellectual Property rights of the Company or any Subsidiary, any trade secret material to the Company or any Subsidiary or any Intellectual Property right of any third party to the extent licensed by or through the Company or any Subsidiary, by any third party, including any employee or former employee of the Company or any Subsidiary. Neither the Company nor any Subsidiary has entered into any agreement to indemnify any other person against any charge of infringement of any Intellectual Property, other than indemnification provisions contained in purchase orders arising in the ordinary course of business.

(d) All patents, registered trademarks, service marks and copyrights held by the Company or any Subsidiary are valid and existing and so far as the Principal Shareholders are aware, there is no assertion or claim (or basis therefor) challenging the validity of any Intellectual Property of the Company or any Subsidiary. The Company has not been sued in any suit, action or proceeding which involves a claim of infringement of any patents, trademarks, service marks, copyrights or violation of any trade secret or other proprietary right of any third party. So far as the Principal Shareholders are aware, neither the conduct of the business of the Company and each Subsidiary as currently conducted or contemplated nor the manufacture, sale, licensing or use of any of the products of the Company or any Subsidiary as now manufactured, sold or licensed or used, nor the use in any way of the Intellectual Property in the manufacture, use, sale or licensing by the Company or any Subsidiary of any products currently proposed, infringes on or will infringe or conflict with, in any way, any license, trademark, trademark right, trade name, trade name right, patent, patent right, industrial model, invention, service mark or copyright of any third party. All registered trademarks, service marks and copyrights held by the Company are valid and subsisting. So far as the Principal Shareholders are aware, no third party is challenging the ownership by the Company or any Subsidiary, or validity or effectiveness of, any of the Intellectual Property. Neither the Company nor any Subsidiary has brought any action, suit or proceeding for infringement of Intellectual Property or breach of any license or agreement involving Intellectual Property against any third party. There are no pending, or to the best of Principal Shareholders' knowledge, threatened

interference, re-examinations, oppositions or nullities involving any patents, patent rights or applications therefor of the Company or any Subsidiary, except such as may have been commenced by the Company or any Subsidiary. There is no breach or violation of or threatened or actual loss of rights by the Company under any licenses to which the Company is a party.

(e) The Company has secured valid written assignments from all consultants and employees who contributed to the creation or development of Intellectual Property of the rights to such contributions that the Company does not already own by operation of law.

(f) The Company has taken all reasonable steps to protect and preserve the confidentiality of all Intellectual Property not otherwise protected by patents, patent applications or copyright ("Confidential Information"). Each of the Company and its Subsidiaries has a policy requiring each of its employees and contractors to execute proprietary information and confidentiality agreements substantially in the Company's standard forms and all current and former employees and contractors of the Company and each Subsidiary have executed such an agreement. All use, disclosure or appropriation of Confidential Information owned by the Company or a Subsidiary to a third party has been pursuant to the terms of a written agreement between the Company or the applicable Subsidiary and such third party. All use, disclosure or appropriation of Confidential Information not owned by the Company or a Subsidiary

has been pursuant to the terms of a written agreement between the Company or a Subsidiary and the owner of such Confidential Information, or is otherwise lawful.

4.14 ENVIRONMENTAL MATTERS.

(a) The following terms shall be defined as follows:

(i) "ENVIRONMENTAL AND SAFETY LAWS" shall mean any and all laws, whether civil, criminal or administrative (including, without limitation, European Community or European Union regulations, directives, decisions and recommendations, statutes and subordinate legislation; regulations, orders and ordinances; leases or licenses or other agreements (including agreements of the nature referred to at paragraph 44 of Chapter IV of the draft statutory Guidance to Part IIA of the Environment Protection Act 1990) which are binding on the Company; permits and licenses required to be issued; codes of practice, circulars, guidance notes and the like, common law, local laws and bye-laws; and judgments, notice, orders, directions, instructions or awards of any person having legal and/or regulatory authority or any court of law or tribunal in any jurisdiction), as each may be amended from time to time, that are intended to assure the protection of the environment, or that classify, regulate, call for the remediation of, require reporting with respect to, or list or define air, water, groundwater, solid waste, hazardous or toxic substances, materials, wastes, pollutants or contaminants; which regulate the manufacture, handling, transport, use, treatment, storage or disposal of Hazardous Materials (as defined

below) or materials containing Hazardous Materials; or which are intended to assure the protection, safety and good health of employees, workers or other persons, including the public in each case if and to the extent that they are legally binding on the Company.

(ii) "HAZARDOUS MATERIALS" shall mean any toxic or hazardous substance, material or waste or any pollutant or contaminant, or infectious or radioactive substance or material, including without limitation, those substances, materials and wastes defined in or regulated under any Environmental and Safety Laws; petroleum or petroleum products including crude oil or any fractions thereof; natural gas, synthetic gas, or any mixtures thereof; radon; asbestos; or any other pollutant or contaminant.

(iii) "PROPERTY" shall mean all real property leased or owned by the Company or its Subsidiaries either currently or in the past.

(iv) "FACILITIES" shall mean all buildings and improvements on the Property of the Company or its Subsidiaries.

(b) The Company represents and warrants as follows: (i) no methylene chloride or asbestos is contained in or has been used at or released from the Facilities; (ii) all Hazardous Materials and wastes have been disposed of in accordance with all Environmental and Safety Laws; and (iii) the Company and its Subsidiaries have received no notice (verbal or written) of any noncompliance of the Facilities or of its past or present operations with Environmental and Safety Laws; (iv) no notices, administrative actions or suits are pending or threatened relating to Hazardous Materials or a violation of any Environmental and Safety Laws; (v) there has not been in the past, and there is not now, any contamination, disposal, spilling, dumping, incineration, discharge, storage, treatment or handling of Hazardous Materials on, under or migrating to or from the Facilities or Property (including without limitation, soils and surface and

ground waters); (vi) there have not been in the past, and are not now, any underground tanks or underground improvements at, on or under the Property including without limitation, treatment or storage tanks, sumps, or water, gas or oil wells; (vii) there are no polychlorinated biphenyls ("PCBs") deposited, stored, disposed of or located on the Property or Facilities or ---- any equipment on the Property containing PCBs at levels in excess of 50 parts per million; (viii) there is no formaldehyde on the Property or in the Facilities, nor any insulating material containing urea formaldehyde in the Facilities; (ix) the Facilities and the Company's and its Subsidiaries uses and activities therein have at all times complied with all Environmental and Safety Laws; (x) the Company and its Subsidiaries have all the permits and licenses required to be issued and are in full compliance with the terms and conditions of those permits; and (xi) neither the Company nor any of its Subsidiaries is liable for any off-site contamination nor under any Environmental and Safety Laws.

4.15 TAXES.

(a) The following terms shall be defined as follows:

(i) "TAXATION" or "TAX" shall mean all forms of taxation including any charge, tax, duty, levy, impost, withholding or liability wherever chargeable imposed for support of national, state, federal, municipal or local government or any other person and whether of the UK or any other jurisdiction; and any penalty, fine, surcharge, interest, charges or costs payable in connection with any taxation within (a) above;

(ii) "TAXATION AUTHORITY" shall mean the Inland Revenue, Customs & Excise, the Department of Social Security and any other governmental or other authority whatsoever competent to impose any Taxation, whether in the United Kingdom or elsewhere;

(iii) "TAXATION STATUTE" means any directive, statute, enactment, law, or regulation or similar measure, wheresoever enacted or issued, coming into force or entered into providing for or imposing any Taxation and shall include orders, regulations, instruments, bye-laws or other subordinate legislation made under the relevant statute or statutory provision and any such measure which amends, extends, consolidates or replaces, or which has been amended, extended, consolidated or replaced by, any such measure; and

(iv) "ACCOUNTS DATE" means December 31, 1998.

(b) GENERAL.

(i) All notices, returns, computations and registrations of the Company for the purposes of Taxation have been made punctually on a proper basis and are correct and none of them is, or is likely to be, the subject of any dispute with any Taxation Authority. All information supplied by the Company for the purposes of Taxation was when supplied and remains complete and accurate in all material respects. All Taxation which the Company is liable to pay prior to Closing has been or will be so paid prior to Closing. The Company has not within the period of six years ending on the date of this Agreement paid or become liable to pay any penalty, fine, surcharge or interest charged by virtue of the provisions of the Taxes Management Act (the "TMA") or any other Taxation Statute.

(ii) All income tax deductible and payable under the PAYE system and/or any other Taxation Statute has, so far as is required to be deducted, been deducted from all payments made or treated as made by the Company and all mounts due to be paid to the Inland Revenue prior to the date of this Agreement have been so paid, including all Tax chargeable on benefits provided for directors, employees or former employees of the Company or any persons required to be treated as such. All deductions and payments required to be made under any Taxation Statute in respect of national insurance and social security contributions (including employer's contributions)

have been so made. All payments by the Company to any person which ought to have been made under deduction of Tax have been so made and the Company (if required by law to do so) has accounted to the Inland Revenue for the Tax so deducted. Proper

24

records have been maintained in respect of all such deductions and payments and all applicable regulations have been complied with. Section 4.15(b)(ii) of the Company Disclosure Schedule contains details so far as they affect the Company of all current dispensations agreed with the Inland Revenue in relation to PAYE and all notifications given by the Inland Revenue under section 166 the Income and Corporation Taxes Act 1988 (the "TA 88").

(iii) The Company has not been subject to any visit, audit, investigation, discovery or access order by any Taxation Authority and there are no circumstances existing which make it likely that a visit, audit, investigation, discovery or access order will be made. The Company is and always has been resident for Taxation purposes only in the jurisdiction in which it is incorporated.

(iv) Full provision or reserve has been made in the Accounts for all Taxation assessed or liable to be assessed on the Company or for which it is accountable in respect of income, profits or gains earned, accrued or received or deemed to be earned, accrued or received on or before the Accounts Date, including distributions made down to such date or provided for in the Financial Statements and proper provision has been made in the Financial Statements for deferred Taxation in accordance with generally accepted accounting principles.

(v) The amount of Taxation chargeable on the Company during any accounting period ending on or within the six years before the Accounts Date has not depended on any concessions, agreements or other formal or informal arrangements with any Taxation Authority. The Company has not entered into or been a party to any scheme or arrangement of which the main purpose, or one of the main purposes, was the avoidance of or the reduction in or the deferral of a liability to Taxation.

(vi) The Company has not without the prior consent of the Treasury carried out or agreed to carry out any transaction under section 765 TA 88 which would be unlawful in the absence of such consent and has, where relevant, complied with the requirements of section 765A(2) TA 88 (supply of information on movement of capital within the EU) and any regulations made or notice given under that provision. All particulars furnished to any Taxation Authority in connection with an application for clearance or consent by the Company or on its behalf or affecting the Company has been made and obtained on the basis of full and accurate disclosure to the relevant Taxation Authority of all relevant material facts and considerations; and any transaction for which clearance or consent was obtained has been carried into effect only in accordance with the terms of the relevant clearance or consent.

(vii) The Company has sufficient records relating to past events to permit accurate calculation of the Taxation liability or relief which would arise upon a disposal or realisation on closing of each asset owned by the Company at the Accounts Date or acquired by the Company since that

25

date but before Closing. The Company has duly submitted all claims and disclaimers the making of which has been assumed for the purposes of the Financial Statements. Section 4.15(a)(vii) of the Company Disclosure Schedule contains full particulars of all matters relating to Taxation in respect of which the Company is or at Closing will be entitled (a) to make any claim (including a supplementary claim), disclaimer or election for relief under any Taxation Statute; (b) to appeal against any assessment or determination relating to Taxation; (c) to apply for a postponement of Taxation. No shares or securities have been issued by the Company to which the provisions of section 140A or 140D TA 88 have been or could be applied.

(c) CORPORATION TAX.

(i) If each of the capital assets of the Company was disposed of on the date of this Agreement for a consideration equal to the book value of that asset in, or adopted for the purposes of, the Financial Statements or, in the case of assets acquired since the Accounts Date, equal to the consideration given upon its acquisition, no liability to corporation tax on chargeable gains or balancing charges under the Capital Allowance Act 1990 (the "CAA") would arise and for the purpose of determining the liability to corporation tax on chargeable gains there shall be disregarded any relief and allowances available to the Company other than amounts falling to be deducted under section 38 Taxation of Chargeable Gains Act 1992 (the "TCGA").

(ii) All expenditure which the Company has incurred or may incur under any subsisting commitment on the provision of machinery, plant or buildings has qualified or will qualify (if not deductible as a trading expense for trade carried on by the Company) for writing-down allowances or industrial building allowances (as the case may be) under CAA and where appropriate notices have been given to the Inland Revenue under section 118 Finance Act 1994.

(iii) The Company has not made any claim for capital allowances in respect of any asset which is leased to or from or hired to or from the Company and no election affecting the Company has been made or agreed to be under sections 53 or 55 CAA in respect of such assets. The Company is not a lessee under a lease to which the provisions of Schedule 12 FA 1997 apply or could apply. The Company has not made any election under section 37 CAA nor is it taken to have made such an election under section 37(8)(c) CAA. The Company does not own and has not owned a long life asset (within the meaning of section 38A CAA) in respect of which any claim for capital allowances would be subject to the provisions of section 38E-38G CAA. None of the assets of the Company expenditure on which has qualified for a capital allowance under Part I CAA has at any time been used otherwise than as an industrial building or structure.

(iv) No distribution within the meaning of sections 209, 210 and 211 TA 88 has been made (or will be deemed to have been made) by the Company after 5th April, 1965 except dividends shown in its audited accounts and the Company is not bound to make any such distribution. No elections have been made pursuant to section 246A TA 88 in respect of any dividends and nor has the Company made a distribution to which the provisions of paragraph 2 of Schedule 7 FA 1997 have been, or could be, applied. The Company has not received a dividend in respect of which the payer has made an election under section 246A TA 88 nor a distribution to which the provisions of paragraph 2 of Schedule 7 FA 1997 have been, or could be, applied.

(v) The Company has not any time after 6th April, 1965 repaid, redeemed or repurchased or agreed to repay, redeem or repurchase or granted an option under which it may become liable to purchase any shares of any class of its issued share capital nor has the Company after that date capitalised or agreed to capitalise in the form of shares or debentures any profits or reserves of any class or description or otherwise issued or agreed to issue any share capital other than for

the receipt of new consideration (within the meaning of Part VI TA 88) or passed or agreed to pass any resolution to do so. The Company has not been engaged in nor been a party to any of the transactions set out in sections 213 to 218 inclusive TA 88 nor has it made or received a chargeable payment as defined in section 218(1) TA 88. No securities (within the meaning of section 254(1) TA 88) issued by the Company and remaining in issue at the date of this Agreement were issued in such circumstances that the interest payable thereon falls to be treated as a distribution under either sections 209(2)(d), 209(2)(da) or 209(2)(e) TA 88, nor has the Company agreed to issue such securities in such circumstances. The Company has not received any capital distribution to which the provisions of section 189 TCGA could apply.

(vi) The Company has not entered into any transaction to which the provisions of section 779 or 780 TA 88 have been or could be applied. The Company has not since 31st March, 1982 received any foreign loan interest in respect of which double taxation relief will or may be restricted under section 798 TA 88. No rents, interest, annual payments or other sums of an income nature paid or payable by the Company or which the Company is under an existing obligation to pay in the future are or may be wholly or partially disallowable as deductions, management expenses or charges in computing profits for the purposes of corporation tax by reason of the provisions of sections 74, 79, 125, 338, 339, 779 to 784 inclusive, 787 or 788 TA 88 or any other statutory provision or otherwise. No rent is or has been payable by the Company to which the provisions of sections 33A and 33B TA 88 could have applied prior to their ceasing to have effect. No claim has been made by the Company under sections 584, 585 or 723 TA 88 or under section 279 TCGA. The Company has not made or agreed to make any payment to or provided or agreed to provide any benefit for any director or former

director, officer or employee of the Company, whether as compensation for loss of office, termination of employment or otherwise, which is not allowable as a deduction in calculating the profits of the Company for Taxation purposes whether up to or after the Accounts Date.

(vii) Intentionally deleted.

(viii) The Company is not a party to any transaction or arrangement under which it may be required to pay for any asset or any services or facilities of any kind an amount which is in excess of the market value of that asset or those services or facilities, neither is or was the Company a party to any transaction or arrangement to which the provisions of section 770A and Schedule 28AA TA 88 may apply and nor will the Company receive any payment for an asset or any services or facilities of any kind that it has supplied or provided or is liable to supply or provide which is less than the market value of that asset or those services or facilities. The Company has not disposed of or acquired any asset in circumstances falling within section 17 or 19 TCGA nor given or agreed to give any consideration to which section 128(1)(2) TCGA could apply. No allowable loss has accrued to the Company to which section 18(3) TCGA will apply.

(ix) The Company is not owed a debt, other than a debt on a security, on the disposal or satisfaction of which a liability to corporation tax on chargeable gains will arise by reason of section 251 TCGA. No claim for relief has been allowed to the Company pursuant to sections 253 and 254 TCGA in respect of any loan and no chargeable gain has or is likely to arise pursuant to section 253 (5), (6), (7) or (8) or section 254 (9) or (10) TCGA. The Company has not acquired benefits under any policy of assurance otherwise than as the original holder of legal and beneficial title.

(x) No claim or election affecting the Company has been made (or assumed to be made) under sections 140, 140C or 187 TCGA. No allowable loss which might accrue on the disposal by the Company of any share in or security of any company is likely to be reduced by virtue of the provisions of sections 176 and 177 TCGA. The Company has not been a party to any scheme or arrangement whereby the value of an asset has been materially reduced as set out in sections 30-34 TCGA. No asset owned by the Company is subject to a deemed disposal and re-acquisition under Schedule 2 TCGA so as to restrict the extent to which the gain or loss over the period of ownership may be apportioned by reference to straightline growth.

(xi) The Company has made no claim under any of the following (a) section 280 TCGA (tax on chargeable gains payable by installments); (b) section 24(2) TCGA (assets of negligible value); (c) section 242(2) TCGA (small part disposals of land); or (d) section 139 FAA 1993 (deferral of unrealized exchange gains).

(xii) The Company has not received any assets by way of gift as mentioned in section 282 TCGA and the Company has not held, and does not hold, shares in a company to which section 125 TCGA could apply.

(xiii) There has not accrued or arisen any income, profit or gain in respect of which the Company may be liable to corporation tax by virtue of the provisions of section 13 TCGA or Chapter IV of Part XVII TA 88. The Company has not been served with a notice in respect of the unpaid corporation tax liability of any company pursuant to section 191 TCGA.

(xiv) No notice of the making of a direction under section 747 TA 88 has been received by the Company and no circumstances exist which would entitle the Inland Revenue to make such a direction or to apportion any profits of a controlled foreign company to the Company pursuant to section 752 TA 88. The Company has not been a party to any transaction or arrangement whereby it is or may in future become liable for Taxation under or by virtue of section 42A TA 88 or regulations made under that Act or under section 126 FA 1995.

(xv) No scheme registered under Chapter III of Part V TA 88 applies to the Company or any of its employees and no application for registration of a scheme so applying has been made. The Company has not received a payment out of funds held for the purposes of an exempt approved scheme in respect of which an amount is recoverable by the Inland Revenue under section 601 TA 88.

(xvi) Section 14.5(c)(xvi) of the Company Disclosure Schedule contains full particulars of all claims and elections made (or assumed to be made) under sections 23, 152-162 or 165, 175, 247, 248 TCGA insofar as they could affect the chargeable gain or allowable loss which would arise in the event of a disposal by the Company of any of its assets, and indicate which assets (if any) so affected would not on a disposal give rise to relief under Schedule 4 TCGA. Section 4.15(c)(xvi) of the Company Disclosure Schedule contains full particulars of elections made under (a) Regulation 10 The Exchange Gains and Losses (Alternative Method of Calculation of Gain or Loss) Regulations 1994 and whether or not such elections have been varied; and (b) Regulations 3 or 4 The Local Currency Elections Regulations 1994 and such election is still valid.

(xvii) All interests, discounts and premiums payable by the Company in respect of its loan relationships (within the meaning of section 81 Finance Act 1996) are eligible to be brought into account by the Company as a debit for the purposes of Chapter II of Part IV Finance Act 1996 at the time and to the extent

that such debits are recognized in the statutory accounts of the Company. Section 14.5(c)(xvii) of the Company Disclosure Schedule contains full particulars of any debtor relationship (within the meaning of section 103 Finance Act 1996) of the Company which relates to a relevant discounted security (within the meaning of paragraph 3 of Schedule 13 Finance Act 1996) to which paragraph 17 or 18 of Schedule

9 Finance Act 1996 applies. Section 14.5(c)(xvii) of the Company has not been a party to a loan relationship which had an unallowable purpose (within the meaning of paragraph 13 of Schedule 9 Finance Act 1996). The Company Disclosure Schedules contains full particulars of: (a) any loan relationships to which the Company is a party to which paragraph 8 of Schedule 15 Finance Act 1996 has applied or will apply on the occurrence of a relevant event (within the meaning of paragraph 8(2) of Schedule 15 Finance Act 1996); (b) the amount of any deemed chargeable gain or deemed allowable loss that has arisen or will arise on the occurrence of such relevant event; and (c) any election made pursuant to paragraph 9 of Schedule 15 Finance Act 1996. The Company has not entered into any transaction to which paragraph 11 of Schedule 9 Finance Act 1996 applies.

(d) CORPORATION TAX - GROUPS OF COMPANIES.

(i) Section 4.15(d)(i) of the Company Disclosure Schedule contains full particulars of all arrangements and agreements relating to group relief (as defined by section 402 TA 88) to which the Company is or has been a party and all claims by the Company for group relief were when made and are now valid and have been or will be allowed by way of relief from corporation tax. The Company has not made nor is liable to make any payment under any arrangement or agreement save in consideration for the surrender of group relief allowable to the Company by way of relief from corporation tax. The Company has received all payments due to it under any arrangement or agreement for any surrender of group relief made by it and the payments are not liable to be refunded in whole or in part; (d) no such payment exceeds or could exceed the amount permitted by section 402(6) TA 88; and (e) no arrangements such as are specified in section 410(1)-(6) TA 88 exist or existed for any period of account in respect of which a surrender has been made or purports to have been made.

(ii) Section 4.15(d)(iii) of the Company Disclosure Schedule contains full particulars of all arrangements and agreements to which the Company is or has been a party relating to the surrender of advance corporation tax made or received by the Company under section 240 TA 88 and (a) the Company has not paid nor is liable to pay for the benefit of any advance corporation tax which is or may become incapable of set-off against the Company's liability to corporation tax; (b) the Company has received all payments due to it under any arrangement or agreement for any surrender of advance corporation tax made by it and the payments are not liable to be refunded in whole or in part; (c) no such payment exceeds or could exceed the amount permitted by section 240(8) TA 88; and (d) no arrangements such as are specified in section 240(11) TA 88 whereby any person could obtain control of the Company exist or existed for any period in respect of which a claim under section 240 TA 88 has been made or purports to have been made.

(iii) Section 4.15(d)(iii) of the Company Disclosure Schedule contains full particulars of all arrangements and agreements relating to the transfer of tax refunds to which the Company is or has been a party and (a) all claims by the Company for the transfer of tax refunds were when made and are now valid and have been or will be allowed by

way of discharging the liability of the Company to pay any corporation tax; (b) the Company has not made nor is liable to make any payment under any arrangement or agreement save in consideration for the transfer of tax refunds allowable to the Company by way of discharge from liability to corporation tax and equivalent to the Taxation for which the Company would have been liable but for the transfer; (c) the Company has received all payments due to it under any such arrangement or agreement or transfer of tax refunds made by it and the payments are not liable to be refunded in whole or in part; (d) no such payment exceeds or could exceed the amount permitted by section 102(7) Finance Act 1989; and (e) no arrangements such as specified in section 410(1)-(6) TA 88 exist or existed for any period in respect of which a claim under section 102 FA 1989 has been made or purports to have been made.

(iv) No tax has been or may be assessed on the Company pursuant to section 190 TCGA in respect of any chargeable gain accrued prior to the date of this Agreement and the Company has not at any time within the period of six years ending with the date of this Agreement transferred any asset other than trading stock including without limitation any transfer by way of share exchange within section 135 TCGA to any company which at the time of disposal was a member of the same group as defined in section 170 TCGA. The execution or completion of this Agreement or any other event since the Accounts Date will not result in any chargeable asset being deemed to have been disposed of and re-acquired by the Company for Taxation purposes pursuant to section 178 or 179 TCGA or as a result of any other Event since the Accounts Date.

(v) Section 4.15(d)(v) of the Company Disclosure Schedule contains full particulars of all elections made by the Company under section 247 TA 88 and all such elections are now in force and the Company has not paid any dividend without advance corporation tax or made any payment without deduction of income tax in the circumstances specified in section 247(6) TA 88 and no assessment has been made on the Company in respect of advance corporation tax which ought to have been paid or income tax which ought to have been deducted. The Company has no capital losses the set-off of which are or may be restricted by section 177A and Schedule 7A TCGA.

(e) CLOSE COMPANIES. The Company has at all times been a close company within the meaning of sections 414 and 415 TA 88. The Company has not in any accounting period beginning after 31st March, 1989 been a close investment-holding company as defined in section 13A TA 88. No distribution within

section 418 TA 88 has ever been made by the Company. Any loans or advances made or agreed to be made by the Company within sections 419 and 420 or 422 TA 88 have been disclosed and the Company has not released or written off or agreed to release or write off the whole or any part of any such loans or advances.

(f) INHERITANCE TAX. The Company has made no transfers of value within sections 94 and 202 ITA nor has the Company received a transfer of value such that liability might arise under section 199 ITA nor has the Company been party to associated operations in relation to a transfer of value as defined by section 268 ITA. There is no unsatisfied liability to inheritance tax attached to or attributable to the Shares or any asset of the Company and none of them is subject to an Inland Revenue charge as mentioned in section 237 and 238 ITA. No asset owned by the Company nor the Shares are liable to be subject to any sale, mortgage or charge by virtue of section 212 ITA.

(g) VAT.

(i) The Company is a taxable person duly registered for the purposes of value added tax ("VAT"). The Company has complied with all statutory provisions, rules, regulations, orders and directions in respect of

VAT, has promptly submitted accurate returns, and the Company maintains full and accurate VAT records, has never been subject to any interest, forfeiture, surcharge or penalty nor been given any notice under sections 59 or 64 Value Added Tax Act ("VATA") nor been given a warning within section 76(2) VATA nor has the Company been required to give security under paragraph 4 of Schedule 11 VATA. VAT has been duly paid or provision has been made in the Accounts for all amounts of VAT for which the Company is liable.

(ii) All supplies made by the Company are taxable supplies and the Company has not been and will not be denied full credit for all input tax by reason of the operation of sections 25 and 26 VATA and regulations made thereunder or for any other reasons and no VAT paid by the Company is not input tax as defined in section 24 VATA and regulations made thereunder.

(iii) The Company is not and has not been for VAT purposes a member of any group of companies other than the Group and no act or transaction has been effected in consequence of which the Company is or may be held liable for any VAT arising from supplies made by another company and no direction has been given nor will be given by H M Customs & Excise under Schedule 9A VATA as a result of which the Company would be treated for the purposes of VAT as a member of a group.

(iv) The Company has not been or agreed to be party to any transaction or arrangement in relation to which a direction has been or could be made under paragraph 1 of Schedule 6, VATA or to which paragraph 2(3A) of Schedule 10 VATA applied. The Company is not and has not agreed to become liable for VAT by virtue of section 47 and 48 VATA.

(v) The Company or its relevant associate for the purposes of paragraph 3(7) of Schedule 10 VATA has exercised the election to waive exemption from VAT (pursuant to paragraph 2 of Schedule 10 VATA) only in respect of those Properties listed (as having been the subject of such an election) in the Company Disclosure Schedule and (a) neither the Company nor its relevant associate has any intention or obligation to exercise such an election in respect of any other of the Properties; (b) all things necessary for the election to have effect have been done and in particular any notification and information required by paragraph 3(6) of Schedule 10 VATA has been given and any permission required by paragraph 3(9) of Schedule 10 VATA has been properly obtained; (c) a copy of the notification and of any permission obtained from H M Customs & Excise in connection with the election has been disclosed to the Company; (d) no election has or will be disapplied or rendered ineffective by virtue of the application of the provisions of paragraph 2 (3AA) of Schedule 10 VATA; (e) in no case has the Company charged VAT, whether on rents or otherwise, which is not properly chargeable; and (f) the Company has not agreed to refrain from making an election in relation to any of the Properties.

(vi) The Company does not own and has not at any time within the period of ten years preceding the date of this Agreement owned any assets which are capital items subject to the Capital Goods Scheme under Part XV of the VAT Regulations 1995. The Company has not made any claim for bad debt relief under section 36 VATA and details of any claim it could make have been disclosed. The Company has not entered into any self billing arrangement in respect of supplies made by any other person nor has it at any time agreed to allow any such person to make out VAT invoices in respect of supplies made by the Company.

(h) STAMP DUTY. All stampable documents wheresoever executed (other than those which have ceased to have any legal effect) to which the Company is a party have been duly stamped or stamped with a particular stamp denoting that no stamp duty is chargeable. Since the Accounts Date there have been and are no circumstances or transactions to which the Company is or has been a party such that a liability to stamp duty or any penalty in respect of such duty will arise on the Company. Since the Accounts Date the Company has not incurred any liability to or been accountable for any stamp duty reserve tax and there has been no agreement within section

87(1) FA 1986 which could lead to the Company incurring such a liability or becoming so accountable.

4.16 EMPLOYEES.

(a) The particulars shown in Section 4.16(a) of the Company Disclosure Schedule are true and complete and show in respect of each director, officer and employee of the Company his date of birth, the date on which he commenced continuous employment with the Company for the purposes of Employment Rights Act 1996 (the "ERA") and all remuneration payable and other benefits

provided or which the Company is bound to provide (whether now or in the future) to each such person and include full particulars of all remuneration arrangements (particularly profit sharing, incentive and bonus arrangements to which the Company is a party whether legally binding or not) and each director, officer and employee of the Company is listed there. The Company is not a party to any agreement or arrangement with or commitment to any trade unions or staff association nor are any of its employees members of any trades union or staff association.

(b) There is no contract of service in force between the Company and any of its directors, officers or employees which is not terminable by the Company without compensation (other than any compensation payable under Parts X and XI ERA) on one month's notice given at any time or otherwise in accordance with section 86 ERA. There are no consultancy or management services agreements in existence between the Company and any other person, firm or company, and there are no agreements or other arrangements (binding or otherwise) between the Company or any employers' or trade association of which the Company is a member and any Trade Union. There are no outstanding pay negotiations with any employees or Trade Unions.

(c) There are no amounts owing to present or former directors, officers or employees of the Company other than not more than one month's arrears of remuneration accrued or due or for reimbursement of business expenses incurred within a period of three months preceding the date of this Agreement and no moneys or benefits other than in respect of remuneration or emoluments of employment are payable to or for the benefit of any present or former director, officer or employee of the Company, nor any dependant of any present or former director, officer or employee of the Company.

(d) Save to the extent (if any) to which provision or allowance has been made in the Company Balance Sheet or as set forth in Section 4.16(c) of the Company's Disclosure Schedule (i) no liability has been incurred or is anticipated by the Company for breach of any contract of employment or for services or for severance payments or for redundancy payments or protective awards or for compensation for unfair dismissal or for failure to comply with any order for the reinstatement or re-engagement of any employee or for sex or race discrimination or for any other liability accruing from the termination or variation of any contract of employment or for services; (ii) no gratuitous payment has been made or promised by the Company in connection with the actual or proposed termination, suspension or variation of any contract of employment or for services of any present or former director, officer or any dependant of any present or former director, officer or employee of the Company; and (iii) the Company has not made or agreed to make any payment to or provided or agreed to provide any benefit for any present or former director, officer or employee of the Company.

(e) The Company has in relation to each of its employees (and so far as relevant to each of its former employees) complied with (a) all obligations imposed on it by all relevant statutes, regulations and codes of conduct and practice affecting

its employment of any persons and all relevant orders and awards made thereunder and has maintained current, adequate and suitable records regarding the service, terms and conditions of employment of each of its employees; and (b) all collective agreements, recognition agreements and customs and practices for the time being affecting its employees or their conditions of service.

(f) The Company is not in breach of any of the following provisions of the following Acts or of any regulations made under any of such Acts: section 21 Children and Young Persons Act 1933; sections 14, 59, 71 and 72 Shops Act 1950; section 155 Factories Act 1961; section 33 Health and Safety at Work etc. Act 1974. There is no liability or claim against the Company outstanding or anticipated under the Equal Pay Act 1970, the Sex Discrimination Acts 1975 and 1986, the Race Relations Act 1976, the ERA, the Transfer of Undertakings (Protection of Employment) Regulations 1981 ("TUPE"), the Social Security and Housing Benefits Act 1982, the Social Security Contributions and Benefits Act 1992, Trade Union and Labour Relations (Consolidation) Act 1992 ("TULRCA") or the Trade Union Reform and Employment Rights Act 1993. Within a period of one year preceding the date of this Agreement, the Company has not given notice of any redundancies to the Secretary of State or started consultations with any independent trade union under the provisions of Part IV TULRCA or under TUPE nor has the Company failed to comply with any such obligation under Part IV TULRCA.

(g) No present director, officer or employee of the Company has given or received notice terminating his employment except as expressly contemplated under this Agreement and Completion of this Agreement will not entitle any employee to terminate his employment or trigger any entitlement to a severance payment or liquidated damages. Furthermore, the Principal Shareholders are not aware that either Ian Collins or David Ely intend to terminate their employment relationship with the Company. The Company has complied with all recommendations made by the Advisory Conciliation and Arbitration Service and with all awards and declarations made by the Central Arbitration Committee in respect of its employees.

(h) Other than the Company Stock Option Plan, the Company does not have in existence nor is it proposing to introduce, and none of its directors, officers or employees participates in (whether or not established by the Company), any employee share trust, share incentive scheme, share option scheme or profit sharing scheme for the benefit of all or any of its present or former directors, officers or employees or the dependants of any of such persons or any scheme under which any present or former director, officer or employee of the Company is entitled to a commission or remuneration of any other sort calculated by reference to the whole or part of the turnover, profits or sales of the Company including any profit related pay scheme established under Chapter III, Part VTA 88.

(i) No dispute exists or can reasonably be anticipated between the Company and a material number or category of its employees or any Trade Union(s) and so far

as the Principal Shareholders are aware there are no wage or other claims outstanding against the Company by any person who is now or has been a director, officer or employee of the Company. The Company has not had during the last three years any strike, work stoppages, slow-down or work-to-rule by its employees or lock-out, nor, so far as the Principal Shareholders are aware, is any anticipated, which has caused, or is likely to cause, the Company to be materially incapable of carrying on its business in the normal and ordinary course.

(j) The Company has not been a party to any relevant transfer as defined in TUPE nor has the Company failed to comply with any duty to inform and consult any Trade Union under the said regulations within the period of one year preceding the date of this Agreement.

4.17 CERTAIN AGREEMENTS AFFECTED BY THE PURCHASE OF THE SHARES BY OFFEROR. Neither the execution and delivery of this Agreement nor the consummation of the transaction contemplated hereby will (i) result in any payment (including, without limitation, severance, unemployment compensation, golden parachute, bonus or otherwise) becoming due to any director or employee of the Company or any of its Subsidiaries, (ii) materially increase any benefits otherwise payable by the Company or (iii) result in the acceleration of the time of payment or vesting of any such benefits.

4.18 PENSIONS.

(a) "PENSION SCHEMES" shall mean agreements or arrangements (whether legally enforceable or not) for the payment of any pensions, allowances, lump sums or other like benefits on retirement for the benefit of any present or former director, officer or employee of the Company or of any of the Subsidiaries or for the benefit of the dependants of any such persons;

(b) GENERAL. True and complete copies of the following have been delivered to the Offeror in relation to each Pension Scheme: Trust deeds and rules and all other deeds; Booklets currently in force and any subsequent announcements to scheme members; Latest finalized actuarial valuation together with any subsequent valuation in draft and any subsequent written actuarial advice not included in such valuations; Details of members, pensioners and deferred pensioners (including dates of birth, sex, entry and current salary and pensionable salary and name of employer); Details of contributions by members and the employer in the last three years; List of investments; and investment agreements; Scheme accounts and trustee reports for the last three years; Evidence of Inland Revenue approval; contracting-out certificate (if applicable); SSAP 24 disclosures in the employer's accounts for the last three years; Insurance policies and certificates and details of premiums paid; Details of ex-gratia pensions and any discretionary increases in benefits given in the last three years; Details of arrangements for the selection of trustees in accordance with sections 16 to 21 Pensions Act 1995 including copies of notices to members; Statement of investment principles prepared in accordance with section 35 Pensions Act 1995; Any correspondence with the Occupational Pensions Regulatory Authority in relation to the Pension

Scheme; and all letters or agreements for the appointment of professional advisers pursuant to section 47 Pensions Act 1995; Any actuarial certificates pursuant to section 67 Pensions Act 1995.

(c) In relation to each Pension Scheme no power to augment benefits has been exercised; no discretion has been exercised to admit an employee to membership of the pension scheme who would not otherwise be eligible; no discretion has been exercised to provide a benefit which would not otherwise be provided; all benefits (other than a refund of contributions with interest where appropriate) payable under the pension scheme on the death of a member while in an employment to which the pension scheme relates or during a period of sickness or disability of a member are fully insured by a policy with an insurance company of good repute. Each member has been covered for insurance by the insurance company at its normal rates and on its normal terms for persons in good health and all premiums payable have been paid; there are no contributions to the Pension Scheme which are due but unpaid and have remained unpaid for more than one month and in any event contributions have been paid which are at least equal to and by the due date specified in any schedule of contributions or payments applicable under section 58 or 87

Pensions Act 1995; no take-over protection provision will be triggered by Completion; no payment has been made out of the Pension Scheme to any participating employer; no amendment has been made in contravention of section 67 of the Pensions Act 1995; each Pension Scheme of the Company is sufficiently funded on an ongoing basis using the assumptions used in the last actuarial valuation to secure at least the benefits accrued to Completion (other than those which are insured) and in addition is sufficiently funded to meet the minimum funding requirement as defined in section 56 Pensions Act 1995; other than benefits payable on death as disclosed, each Pension Scheme of the Company provides only money purchase benefits within the meaning of section 181 Pension Schemes Act 1993.

(d) Each Pension Scheme (i) is either approved by the Board of Inland Revenue for the purposes of Chapter I of Part XIV TA 88 or is a scheme under which the benefits provided or to be provided are consistent with the approval of the scheme by the Board of Inland Revenue for such purposes and is a scheme in respect of which an application for such approval has been made and has not been withdrawn or refused and the Board of Inland Revenue have not given notice to the applicant that they believe the application has been dropped; (ii) is established under irrevocable trusts; (iii) has been administered in accordance with the preservation requirements under the Pension Schemes Act 1993, the equal access requirements of that Act, the contracting-out requirements of that Act (where applicable), the Pensions Act 1995, and all other applicable laws (including Article 119 of the Treaty of Rome), regulations and requirements of any competent governmental body or regulatory authority and the trusts and rules of the Pension Scheme; (iv) has not been the subject of any report of wrongdoing or irregularities to the Occupational Pensions Regulatory Authority nor, so far as the Principal Shareholders are aware, are there any circumstances which would justify such a report; (v) is a scheme in respect of which all actuarial, consultancy, legal

and other fees, charges or expenses have been paid and for which no services have been provided for which an account or invoice has not been rendered; and (vi) has no investment in employer-related assets as defined in section 40 Pensions Act 1995.

(e) No claim has been threatened or made or litigation commenced against the trustees or administrator of any Pension Scheme or against the Company or any other person whom the Company is or may be liable to indemnify or compensate in respect of any matter arising out of or in connection with any Pension Scheme. So far as the Principal Shareholders are aware, there are no circumstances which may give rise to any such claim or litigation. There are no unresolved disputes under the Pension Scheme's internal dispute resolution procedure.

4.19 MATERIAL CONTRACTS.

(a) Subsections (i) through (ix) of Section 4.19(a) of the Company Disclosure Schedule contain the names, parties and dates of all contracts and agreements to which the Company or any Subsidiary is a party and that are material to the business, results of operations, or condition (financial or otherwise), of the Company and the Subsidiaries taken as a whole (such contracts, agreements and arrangements as are required to be set forth in Section 4.19(a) of the Company Disclosure Schedule being referred to herein collectively as the "Material Contracts"). "Material Contracts" shall include, without limitation, the following and shall be categorized in the Company Disclosure Schedule as follows:

(i) each contract and agreement (other than routine purchase orders and pricing quotes in the ordinary course of business covering a period of less than one year) for the purchase of inventory, spare parts, other materials or personal property with any supplier or for the furnishing of services to the Company or any Subsidiary under the terms of which the Company or any Subsidiary: (A) paid or otherwise gave consideration of

more than $25,000 in the aggregate during the calendar year ended December 31, 1998, (B) is likely to pay or otherwise give consideration of more than $25,000 in the aggregate during the calendar year ended December 31, 1999, (C) is likely to pay or otherwise give consideration of more than $25,000 in the aggregate over the remaining term of such contract, or (D) cannot be canceled by the Company or such Subsidiary without penalty or further payment of less than $25,000;

(ii) each customer contract and agreement (other than routine purchase orders, pricing quotes with open acceptance and other tender bids, in each case, entered into in the ordinary course of business and covering a period of less than one year) to which the Company or any Subsidiary is a party which (A) involved consideration of more than $25,000 in the aggregate during the calendar year ended December 31, 1998, (B) is likely to involve consideration of more than $25,000 in the aggregate during the calendar year ended December 31, 1999, (C) is

likely to involve consideration of more than $25,000 in the aggregate over the remaining term of the contract, or (D) cannot be canceled by the Company or such Subsidiary without penalty or further payment of less than $25,000;

(iii) (A) all distributor, manufacturer's representative, broker, franchise, agency and dealer contracts and agreements to which the Company or any Subsidiary is a party (specifying on a matrix, in the case of distributor agreements, the name of the distributor, product, territory, termination date and exclusivity provisions) and (B) all sales promotion, market research, marketing and advertising contracts and agreements to which the Company or any Subsidiary is a party which: (1) involved consideration of more than $25,000 in the aggregate during the calendar year ended December 31, 1998 or (2) are likely to involve consideration of more than $25,000 in the aggregate during the calendar year ended December 31, 1999 or (3) are likely to involve consideration of more than $25,000 in the aggregate over the remaining term of the contract;

(iv) all management contracts with independent contractors or consultants (or similar arrangements) to which the Company or any Subsidiary is a party and which (A) involved consideration or more than $25,000 in the aggregate during the calendar year ended December 31, 1998, (B) are likely to involve consideration of more than 25,000 in the aggregate during the calendar year ended December 31, 1999, or (C) are likely to involve consideration of more than $25,000 in the aggregate over the remaining term of the contract;

(v) all contracts and agreements (excluding routine checking account overdraft agreements involving petty cash amounts) under which the Company or any Subsidiary has created, incurred, assumed or guaranteed (or may create, incur, assume or guarantee) indebtedness or under which the Company or any Subsidiary has imposed (or may impose) a security interest or lien on any of their respective assets, whether tangible or intangible, to secure indebtedness;

(vi) all contracts and agreements that limit the ability of the Company or any Subsidiary or, after the Closing Date, Offeror or any of its affiliates, to compete in any line of business or with any person or in any geographic area or during any period of time, or to solicit any customer or client;

(vii) all contracts and agreements between or among the Company or any Subsidiary, on the one hand, and any affiliate of the Company (other than a wholly owned subsidiary), on the other

hand;

(viii) all contracts and agreements to which the Company or any Subsidiary is a party under which it has agreed to supply products to a customer at specified prices, whether directly or through a specific distributor, manufacturer's representative or dealer; and

(ix) all other contracts or agreements (A) which are material to the Company and its Subsidiaries or the conduct of their respective businesses or (B) the absence of which would have a Material Adverse Effect on the Company or (C) which are believed by the Company to be of unique value even though not material to the business of the Company.

(b) Except as would not, individually or in the aggregate, have a Material Adverse Effect on the Company, each Material Contract, is a legal, valid and binding agreement, and none of the Material Contracts has been canceled by the other party; the Company and the Subsidiaries are not in receipt of any claim of default under any such agreement; and none of the Company or any of the Subsidiaries anticipates any termination of or change to, or receipt of a proposal with respect to, any such agreement as a result of the purchase of the Shares by Offeror or otherwise. The Company has furnished Offeror with true and complete copies of all such agreements together with all amendments, waivers or other changes thereto.

4.20 INTERESTED PARTY TRANSACTIONS. Neither the Company nor any Subsidiary is indebted to any director, officer, employee or agent of the Company or any Subsidiary (except for amounts due as normal salaries and bonuses and in reimbursement of ordinary expenses), and no such person is indebted to the Company or any Subsidiary.

4.21 INSURANCE. The Company and each of its Subsidiaries have policies of insurance and bonds of the type and in the amounts customarily carried by persons conducting businesses or owning assets similar to those of the Company and its Subsidiaries. There is no material claim pending under any of such policies or bonds as to which coverage has been questioned, denied or disputed by the underwriters of such policies or bonds. All premiums due and payable under all such policies and bonds have been paid and the Company and its Subsidiaries are otherwise in compliance with the terms of such policies and bonds. The Principal Shareholders have no knowledge of any threatened termination of, or material premium increase with respect to, any of such policies.

4.22 COMPLIANCE WITH LAWS. Each of the Company and each of its Subsidiaries has complied with, is not in violation of, and has not received any notices of violation with respect to, any federal, state, local or foreign statute, law or regulation with respect to the conduct of its business, or the ownership or operation of its business, except for such violations or failures to comply as could not reasonably be expected to have a Material Adverse Effect on the Company.

4.23 STATUTORY BOOKS; MINUTE BOOKS; STATUTORY RETURNS. The statutory books (including all registers and minute books) of the Company have been properly kept and contain an accurate and complete record of the matters which should be dealt with in those books, and no notice or allegation that any of them is incorrect or should be rectified has been received. The Company has complied with the provisions of the Companies Acts (as defined in CA 85) and the Companies Act 1989 and all returns, particulars, resolutions and other documents required to be filed with or delivered to the Registrar of Companies or to any other authority whatsoever by the Company have

been correctly and properly prepared and so filed or delivered. The minute books of the Company and its Subsidiaries made available to Offeror contain a complete and accurate record of the matters that they should deal with.

4.24 COMPLETE COPIES OF MATERIALS. The Company has delivered or made available true and complete copies of each document which has been requested by Offeror or its counsel in connection with their legal and accounting review of the Company and its Subsidiaries.

4.25 BROKERS' AND FINDERS' FEES. The Company has not incurred, nor will it incur, directly or indirectly, any liability for brokerage or finders' fees or agents' commissions or investment bankers' fees or any similar charges in connection with this Agreement or any transaction contemplated hereby.

4.26 YEAR 2000.

(a) "MILLENNIUM-COMPLIANT" in relation to any hardware and/or software shall mean that its operation, functionality and performance will not (before, during or after 2000) be adversely affected by reason of any date information or any change of such information, and that (i) no value for current date will cause any interruption in the operation of the hardware and/or software; (ii) all manipulations of time-related data will produce the correct results for all valid date values within the application domain; (iii) date-based functionality will behave consistently and correctly for all dates before, during and alter 2000; (iv) in all interfaces and data storage the correct century is specified (explicitly or by unambiguous algorithms or inferencing rules) without human intervention; (v) where any date information is represented without a century, the correct century is unambiguous for all manipulations involving that information; and (vi) 2000 is recognized as a leap year.

"MILLENNIUM-COMPLIANCE FAILURE" shall mean the failure of any hardware and/or software to be Millennium-compliant (whether in some only or in all respects).

(b) The hardware and/or software used by the Company are Millennium-compliant and neither such hardware and/or software nor any services relating to hardware and/or software owned or used by the Company or to any other aspect of the Company data processing or data transfer requirements will be affected by any Millennium-compliance failure. The Company has established a project ("the Year 2000 Project") for investigating and addressing the potential adverse effects on the Company's business of any Millennium-compliance failure (including in relation to any hardware and/or software belonging to or used by the Company's clients, customers, trading partners and suppliers). The methodology and key personnel of the Year 2000 Project, together with a summary of the material findings and actions of the Year 2000 Project to date (including any financial provision or reserve made in relation to such findings) have been set out in Section 4.26 of the Company Disclosure Schedule. The Company has diligently pursued such methodology, and the summary discloses a tree and fair view of the Company's readiness for any Millennium-compliance failure.

4.27 INVENTORY. The inventories shown on the Company Balance Sheet or thereafter acquired by the Company consist of items of a quantity and quality usable or salable in the ordinary course of business. Since the Company Balance Sheet Date, the Company has continued to replenish inventories in a normal and customary manner consistent with past practices. The Company has not received written or oral notice that it will experience in the foreseeable future any difficulty in obtaining, in the desired quantity and quality and at a reasonable price and upon reasonable terms and conditions, the raw materials, supplies or component products required for the manufacture, assembly or production of its products. The values at which inventories are carried reflect the inventory valuation policy of the Company, which is Consistent with its

past practice and in accordance with UK GAAP applied on a consistent basis. Since January 1, 1999 due provision has been made on the books of the Company in the ordinary course of business consistent with past practices to provide for all slow-moving, obsolete, or unusable inventories at their estimated useful scrap values and such inventory reserves are adequate to provide for such slow-moving, obsolete or unusable inventory and inventory shrinkage.

4.28 ACCOUNTS RECEIVABLE.

(a) The Principal Shareholders have made available to Offeror a list of all accounts receivable of the Company and each Subsidiary reflected on the Company Balance Sheet ("Accounts Receivable") along with a range of days elapsed since invoice.

(b) All Accounts Receivable of the Company and its Subsidiaries arose in the ordinary course of business and are carried at values determined in accordance with UK GAAP consistently applied. No person has any lien on any of such Accounts Receivable and no request or agreement for deduction or discount has been made with respect to any of such Accounts Receivable.

4.29 CUSTOMERS AND SUPPLIERS. As of the date hereof, no customer which individually accounted for more than 10% of the Company's gross revenues during the 12 month period preceding the date hereof, and no supplier of the Company, has canceled or otherwise terminated, or made any written threat to the Company to cancel or otherwise terminate its relationship with the Company, or has at any time on or after August 31, 1999 decreased materially its services or supplies to the Company in the case of any such supplier, or its usage of the services or products of the Company in the case of such customer, and to the Principal Shareholder's knowledge, no such supplier or customer intends to cancel or otherwise terminate its relationship with the Company or to decrease materially its services or supplies to the company or its usage of the services or products of the Company, as the case may be. To the Principal Shareholder's knowledge, from and after the date hereof, no customer which individually accounted for more than 10% of the Company's gross revenues during the 12 month period preceding the Effective Date intends to cancel or otherwise terminate its relationship with the Company or to decrease materially its usage of the services or products of the Company. The Company has not knowingly breached, so as to provide a benefit to the Company that was not intended by the parties, any

agreement with, or engaged in any fraudulent conduct with respect to, any customer or supplier of the Company.

4.30 THIRD PARTY CONSENTS. No consent or approval is needed from any third party in order to effect the purchase of the Shares by Offeror, this Agreement or any of the transactions contemplated hereby.

4.31 NO COMMITMENTS REGARDING FUTURE PRODUCTS. The Company has made no sales to customers that are contingent upon providing future enhancements of existing products, to add features not presently available on existing products or to otherwise enhance the performance of its existing products (other than beta or similar arrangements pursuant to which the Company's customers from time to time test or evaluate products). The products the Company has delivered to customers substantially comply with published specifications for such products and the Company has not received material complaints from customers about its products that remain unresolved. Section 4.31 of the Company Disclosure Schedule accurately sets forth a complete list of products in development (exclusive of mere enhancements to and additional features for existing products).

4.32 REPRESENTATIONS COMPLETE. None of the representations or warranties made by the Principal Shareholders in this Agreement or in any attachment hereto, including the Company Disclosure Schedule, when all such documents are read together in their entirety, contains any untrue statement of a material fact, or omits to state any material fact necessary in order to make the statements contained herein or therein, in the light of the circumstances under which they were made, not misleading in each case so

as to have a Material Adverse Effect on the Company. Offeror hereby confirms that as of the Effective Date it is not aware of any breach of any warranty so as to give rise to a warranty claim under this Agreement.

SECTION 5

REPRESENTATIONS AND WARRANTIES OF THE PRINCIPAL SHAREHOLDERS REGARDING THEIR SHAREHOLDER STATUS

Each Principal Shareholder in consideration of the Offeror agreeing to make the Offer and issue the Offer Document hereby represents and warrants to Offeror, as to himself, herself or itself, as the case may be, as follows:

5.1 POWER, AUTHORIZATION AND VALIDITY. The Principal Shareholder has all requisite legal and, to the extent applicable, corporate power, and authority to enter into and perform its obligations under this Agreement and to consummate the transactions contemplated hereby and by the Offer Document. The execution, delivery and performance of this Agreement and the consummation of the transactions contemplated hereby and by the Offer Document have been duly and validly approved and authorized by all necessary action, including, if applicable, corporate action, by or on behalf of such Principal Shareholder. This Agreement has been duly executed and delivered by such Principal Shareholder and constitutes a valid and binding obligation of the Principal Shareholder, subject to the laws of general application relating to bankruptcy, insolvency and the relief of debtors and rules of law governing specific performance, injunctive relief and equitable remedies. No consent, approval, order or

authorization of, or registration, declaration or filing with, any Governmental Entity, is required by or with respect to the Principal Shareholder in connection with the execution and delivery of this Agreement by the Principal Shareholder or the consummation by the Shareholder of the transactions contemplated hereby and by the Offer Document.

5.2 TITLE TO STOCK. The Principal Shareholder is the sole owner of the Shares or options to purchase the Shares reflected next to such Principal Shareholder's name on Exhibit A and has or will have, as of the Closing, good, valid and marketable title to such Shares free and clear of all restrictions, claims, liens, charges, encumbrances and equities whatsoever. The Principal Shareholder represents that he, she or it has or will have, as of the Closing, full right, power and authority to sell, transfer and deliver the Shares to Offeror, and, upon delivery of the certificate or certificates therefor duly endorsed for transfer to Offeror and Offeror's payment for and acceptance thereof, will transfer to Offeror good, valid and marketable title thereto free and clear of any restriction, claim, lien, charge, encumbrance or equity whatsoever. The Principal Shareholder is not party to any voting trust, agreement or arrangement affecting the exercise of the voting rights of the Shares. There is no action, proceeding, claim or, to the Principal Shareholder's knowledge, investigation against the Principal Shareholder or the Principal Shareholder's assets, properties or, as applicable, any of the Principal Shareholder's respective officers or directors, pending or, to the Principal Shareholder's knowledge, threatened, at law or in equity, or before any court, arbitrator or other tribunal, or before any administrative law judge, hearing officer or administrative agency relating to or in any other manner impacting upon the Shares held by such Principal Shareholder.

5.3 NO VIOLATION. The execution, delivery and performance of this Agreement, and the consummation of the Purchase and the other transactions contemplated by this Agreement and by the Offer Document do not and will not conflict with or result in a violation of the Articles of Association, partnership agreement or other applicable charter document of the Principal Shareholder, or conflict with, or (with or without notice or lapse of time, or both) result in a termination, breach, impairment or violation of, or constitute a default or result in the creation or imposition of any lien, charge or encumbrance upon any of the Principal Shareholder's Shares under, (a) any instrument, indenture, lease, mortgage

or other agreement or contract to which the Principal Shareholders is a party or to which such Principal Shareholder or any of such Principal Shareholder's assets or properties may be subject or (b) any federal, state, local or foreign judgment, writ, decree, order, ordinance, statute, rule or regulation applicable to the Principal Shareholders or the Principal Shareholder's assets or properties. The consummation of the Purchase and the other transactions contemplated by this Agreement will not require the consent of any third person with respect to the rights, licenses, franchises, leases or agreements of the Principal Shareholder.

5.4 ACKNOWLEDGMENT. The Principal Shareholder hereby acknowledges that the Principal Shareholder has read this Agreement, the Offer Document, the Deed of Tax Covenant, the Escrow Agreement and the other documents to be delivered in connection with the consummation of the transactions contemplated hereby and has made an independent examination of the transactions contemplated hereby (including the tax consequences

thereof). The Principal Shareholder acknowledges that the Principal Shareholder has had an opportunity to consult with and has relied solely upon the advice, if any, of the Principal Shareholder's legal counsel, financial advisors, or accountants with respect to the transactions contemplated hereby to the extent the Principal Shareholder has deemed necessary, and has not been advised or directed by Offeror, the Company or their respective legal counsel or other advisors in respect of any such matters and has not relied on any such parties in connection with this Agreement and the transactions contemplated hereby.

SECTION 6

REPRESENTATIONS AND WARRANTIES OF OFFEROR

Offeror hereby represents and warrants to the Company and the Principal Shareholders as follows:

6.1 ORGANIZATION, STANDING AND POWER. Offeror is a corporation duly organized, validly existing and in good standing under the laws of California. Offeror has the corporate power to own its properties and to carry on its business as now being conducted and as proposed to be conducted and is duly qualified to do business and is in good standing in each jurisdiction in which the failure to be so qualified and in good standing would have a Material Adverse Effect on Offeror. Offeror has delivered a true and correct copy of its Articles of Incorporation and Bylaws or other charter documents, as applicable, each as amended to date, to the Principal Shareholders' Representative. Offeror is not in violation of any material provisions of its Articles of Incorporation or Bylaws or equivalent organizational documents.

6.2 CAPITAL STRUCTURE. The authorized capital stock of Offeror consists of 25,000,000 shares of Common Stock, no par value, of which 4,782,608 shares were issued and outstanding as of the close of business on June 30, 1999 and 12,000,000 shares of Preferred Stock, no par value, of which 8,170,207 shares were issued and outstanding as of the close of business on June 30, 1999, and are convertible into 11,073,439 shares of Common Stock. As of the close of business on June 30, 1999, 375,499 shares are subject to outstanding, unexercised options under Offeror's 1986 Incentive Stock Option Plan and 1986 Supplemental Stock Option Plan, and 1,849,916 shares are subject to outstanding, unexercised options under Offeror's 1996 Stock Option Plan. There are no other outstanding shares of capital stock or voting securities of Offeror other than shares of Offeror Common Stock issued after June 30, 1999 upon the exercise of options issued under the Offeror Stock Option Plan before or after such date. As of the close of business on June 30, 1999, there are warrants outstanding to purchase 32,000 shares of the Company's Common Stock. Other than as contemplated under this Agreement, there are no other options, warrants, calls, rights, commitments or agreements of any character to which Offeror is a party or by which either of them is bound obligating Offeror to issue, deliver, sell, repurchase or redeem, or cause to be issued, delivered, sold, repurchased or redeemed, any shares of the capital stock of Offeror or obligating Offeror to grant, extend or enter into any such option, warrant, call, right, commitment or agreement. The shares of Offeror

Common Stock to be issued pursuant to the Offer will be duly authorized, validly issued, fully paid, and non-assessable.

6.3 AUTHORITY. Offeror has all requisite corporate power and authority to enter into this Agreement and to consummate the transactions contemplated hereby. The execution and delivery of this Agreement and the consummation of the transactions contemplated hereby have been duly authorized by all necessary corporate action on the part of Offeror. This Agreement has been duly executed and delivered by Offeror and constitutes the valid and binding obligation of Offeror enforceable against the Offeror in accordance with its terms, subject to the laws of general application relating to bankruptcy, insolvency and the relief of debtors and rules of law governing specific performance, injunctive relief and equitable remedies.

6.4 NO CONFLICT; REQUIRED FILINGS AND CONSENTS.

(a) The execution and delivery of this Agreement do not, and the consummation of the transactions contemplated hereby will not, conflict with, or result in any violation of, or default under (with or without notice or lapse of time, or both), or give rise to a right of termination, cancellation or acceleration of any obligation or loss of a benefit under (i) any provision of the Articles of Incorporation or Bylaws of Offeror, as amended, or (ii) any material mortgage, indenture, lease, contract or other agreement or instrument, permit, concession, franchise, license, judgment, order, decree, statute, law, ordinance, rule or regulation applicable to Offeror or its properties or assets.

(b) No consent, approval, order or authorization of, or registration, declaration or filing with, any Governmental Entity, is required by or with respect to Offeror in connection with the execution and delivery of this Agreement by Offeror or the consummation by Offeror of the transactions contemplated hereby, except for (i) any filings as may be required under applicable state securities laws and the securities laws of any foreign country, (ii) such filings as may be required under the HSR Act, and (iii) consents, authorizations, filings, approvals and registrations which, if not obtained or made, would not have a Material Adverse Effect on Offeror and would not prevent, materially alter or delay any the transactions contemplated by this Agreement.

6.5 Offeror has provided to the Principal Shareholders Representative a true, correct and complete copy of the Company's draft audited financial statements for the fiscal year 30 June 1999 (the "Audited Financial Statements"), and its unaudited financial statements (balance sheet, statement of operations and statement of cash flows) on a consolidated basis as at, and for the three month period ended September 25, 1999 (the "Unaudited Financial Statements"). The Audited Financial Statements have been prepared in accordance with the relevant accounting standards and legal principles and US Generally Accepted Accounting Principles ("US GAAP") applied on a consistent basis throughout the periods indicated and with each other. The Audited Financial Statements accurately set out and describe the financial condition and operating results of Offeror and the consolidated subsidiaries of Offeror as of the date, and for the periods indicated thereon subject to normal year-end audit adjustments. The Unaudited Financial Statements have been prepared on the same basis as the Audited Financial Statements and using the same accounting policies as were used in the preparation of the Audited Financial Statements and show a materially accurate view of the assets and liabilities and trading position of Offeror. Offeror has maintained a

standard system of accounting established and administered in accordance with US GAAP.

6.6 ABSENCE OF CERTAIN CHANGES. Since September 25, 1999 (the "Offeror Balance

Sheet Date"), Offeror has conducted its business in the ordinary course in a manner consistent with past practice and there has not occurred: (i) any change, event or condition (whether or not covered by insurance) that has resulted in, or might reasonably be expected to result in, a Material Adverse Effect to Offeror; (ii) any declaration, setting aside, or payment of a dividend or other distribution with respect to the shares of Offeror, or any direct or indirect redemption, purchase or other acquisition by Offeror of any of its shares of capital stock; (iii) any material amendment or change to Offeror's Articles of Incorporation or Bylaws; or (iv) any negotiation or agreement by Offeror to do any of the things described in the preceding clauses (i) through (iii) (other than negotiations with the Company and its representatives regarding the transactions contemplated by this Agreement).

6.7 LITIGATION. There is no private or governmental action, suit, proceeding, claim, arbitration or investigation pending before any agency, court or tribunal, foreign or domestic, or, to the knowledge of Offeror or any of its subsidiaries, threatened against Offeror or any of its subsidiaries or any of their respective properties or any of their respective officers or directors (in their capacities as such) that, individually or in the aggregate, could reasonably be expected to have a Material Adverse Effect on Offeror. There is no judgment, decree or order against Offeror or any of its subsidiaries or, to the knowledge of Offeror or any of its subsidiaries, any of their respective directors or officers (in their capacities as such) that could prevent, enjoin, or materially alter or delay any of the transactions contemplated by this Agreement, or that could reasonably be expected to have a Material Adverse Effect on Offeror.

6.8 GOVERNMENTAL AUTHORIZATION. Each of Offeror and its subsidiaries has obtained each federal, state, county, local or foreign governmental consent, license, permit, grant, or other authorization of a Governmental Entity that is required for the operation of Offeror's or any of its subsidiaries' business ("Offeror Authorizations"), and all of such Offeror Authorizations are in full force and effect, except where the failure to obtain or have any of such Offeror Authorizations could not reasonably be expected to have a Material Adverse Effect on Offeror.

6.9 COMPLIANCE WITH LAWS. Each of Offeror and each of its subsidiaries has complied with, is not in violation of, and has not received any notices of violation with respect to, any federal, state, local or foreign statute, law or regulation with respect to the conduct of its business, or the ownership or operation of its business, except for such violations or failures to comply as could not reasonably be expected to have a Material Adverse Effect on Offeror.

SECTION 7

CONDITIONS TO CLOSING

7.1 CONDITIONS TO OBLIGATIONS OF EACH PARTY. The respective obligations under this Agreement of each Party hereto shall be subject to the satisfaction on or prior to the Closing of each of the following conditions, any of which may be waived, in writing,

by agreement of Offeror or the Principal Shareholders' Representative (defined in Section 8.8 below):

(a) CONDITIONS TO OBLIGATIONS OF EACH PARTY. No temporary restraining order, preliminary or permanent injunction or other order issued by any court of competent jurisdiction or other legal or regulatory restraint or prohibition preventing the consummation of the transactions contemplated hereby shall be in effect, nor shall any proceeding brought by an administrative agency or commission or other governmental authority or instrumentality, domestic or foreign, seeking any of the foregoing be pending; nor shall there be any action taken, or any statute, rule, regulation or order enacted, entered, enforced or deemed applicable to the transactions contemplated hereby, which makes the consummation of such

transactions illegal.

(b) GOVERNMENTAL APPROVAL. Offeror and each Principal Shareholder shall have timely obtained from each Governmental Entity all approvals, waivers and consents, if any, necessary for consummation of or in connection with the transactions contemplated hereby, including, without limitation, such approvals, waivers and consents as may be required under the HSR Act, under the Securities Act and under any state or foreign securities laws.

7.2 ADDITIONAL CONDITIONS TO OBLIGATIONS OF THE PRINCIPAL SHAREHOLDERS. The obligations of the Principal Shareholders under this Agreement shall be subject to the satisfaction at or prior to the Closing of each of the following conditions, any of which may be waived, in writing, by the Principal Shareholders' Representative:

(a) REPRESENTATIONS, WARRANTIES AND COVENANTS. (i) Each of the representations and warranties of Offeror in this Agreement that is expressly qualified by a reference to materiality shall be true in all respects as so qualified, and each of the representations and warranties of Offeror in this Agreement that is not so qualified shall be true and correct in all material respects, on and as of the Closing as though such representation or warranty had been made on and as of the Closing (except that those representations and warranties which address matters only as of a particular date shall remain true and correct as of such date), and (ii) Offeror shall have performed and complied in all material respects with all covenants, obligations and conditions of this Agreement required to be performed and complied with by Offeror as of the Closing.

(b) NO MATERIAL ADVERSE CHANGES. There shall not have occurred any material adverse change in the condition (financial or otherwise), properties, assets (including intangible assets), liabilities, business, operations, results of operations or prospects of Offeror and its subsidiaries, taken as a whole.

(c) CERTIFICATES OF OFFEROR.

(i) COMPLIANCE CERTIFICATE OF OFFEROR. The Principal Shareholders' Representative shall have been provided with a certificate executed on behalf of Offeror by its President or its Chief Financial Officer to the

effect that, as of the Closing, each of the conditions set forth in Section 7.2(a) and (b) above has been satisfied with respect to Offeror.

(ii) CERTIFICATE OF SECRETARY OF OFFEROR. The Principal Shareholders' Representative shall have been provided with a certificate executed by the Secretary or Assistant Secretary of Offeror certifying:

(A) Resolutions duly adopted by the Board of Directors of Offeror authorizing the execution of this Agreement and the execution, performance and delivery of all agreements, documents and transactions contemplated hereby; and

(B) the incumbency of the officers of Offeror executing this Agreement and all agreements and documents contemplated hereby.

(d) GOOD STANDING. The Principal Shareholders' Representative shall have received a certificate or certificates of the Secretary of State of the State of California and any applicable franchise tax authority of such state, certifying as of a date no greater than three business days prior to the Closing that Offeror has filed all required reports, paid all required fees and taxes and is, as of such date, in good standing and authorized to transact business as a

domestic corporation.

7.3 ADDITIONAL CONDITIONS TO THE OBLIGATIONS OF OFFEROR. The obligations of Offeror under this Agreement shall be subject to the satisfaction at or prior to the Closing of each of the following conditions, any of which may be waived, in writing, by Offeror:

(a) REPRESENTATIONS, WARRANTIES AND COVENANTS. (i) Each of the representations and warranties of the Principal Shareholders in Section 5 of this Agreement that is expressly qualified by a reference to materiality shall be true in all respects as so qualified, and each of the representations and warranties of the Principal Shareholders in Section 5 of this Agreement that is not so qualified shall be true and correct in all material respects, on and as of the Closing as though such representation or warranty had been made on and as of the Closing (except that those representations and warranties which address matters only as of a particular date shall remain true and correct as of such date), and (ii) the Principal Shareholders shall have performed and complied in all material respects with or shall have caused or procured the Company to perform and comply with all covenants, obligations and conditions of this Agreement required to be performed and complied with by them as of the Closing.

(b) NO MATERIAL ADVERSE CHANGES. There shall not have occurred any material adverse change in the condition (financial or otherwise), properties, assets (including intangible assets), liabilities, business, operations, results of operations or prospects of the Company and its subsidiaries, taken as a whole. Without limiting the foregoing, a material adverse change shall be deemed to occur if (i) the Company's Current Assets (defined as cash, accounts receivables, inventories, deposits and prepaids) minus Current Liabilities

(defined as trade accounts payable, accrued vacation, bonuses, commissions, taxes, current portion of long term liabilities, and accrued amounts for goods and services received but not invoiced) as of the Closing Date, as determined in good faith by Offeror and the Principal Shareholders' Representative, acting together, is less than zero minus $80,000; or (ii) either Ian Collins or David Ely terminates or has informed the Company or a Principal Shareholder in writing or otherwise of his intention to terminate his employment relationship with the Company.

(c) CERTIFICATES OF THE COMPANY AND THE PRINCIPAL SHAREHOLDERS.

(i) COMPLIANCE CERTIFICATE OF THE COMPANY. Offeror shall have been provided with a certificate executed on behalf of a director of the Company to the effect that, as of the Closing, each of the conditions set forth in Section 5.3(b) above has been satisfied.

(ii) COMPLIANCE CERTIFICATE OF PRINCIPAL SHAREHOLDERS. Offeror shall have been provided with a certificate executed by each Principal Shareholder to the effect that, as of the Closing, each of the conditions set forth in Section 5.3(a) above has been satisfied.

(iii) CERTIFICATE OF SECRETARY OF THE COMPANY. Offeror shall have been provided with a certificate executed by the Secretary of the Company certifying the Articles of Association of the Company, as in effect immediately prior to the Closing, including all amendments thereto.

(d) THIRD PARTY CONSENTS. Offeror shall have been furnished with evidence satisfactory to it that the Company has obtained those consents, waivers, approvals or authorizations of those third parties whose consent or approval are required in connection with this Agreement.

(e) INJUNCTIONS OR RESTRAINTS; CONDUCT OF BUSINESS. In addition, no temporary restraining order, preliminary or permanent injunction or other order issued by any court of competent jurisdiction or other legal or regulatory restraint provision limiting or restricting Offeror's conduct or operation of the business of the Company and its subsidiaries, following the Closing shall be in effect, nor shall any proceeding brought by an administrative agency or commission or other Governmental Entity, domestic or foreign, seeking the foregoing be pending.

(f) SHAREHOLDER DOCUMENTS. Offeror shall have received from each Shareholder a duly executed and delivered acceptance form in the Offer Document, including the Release of Claim, Stock Transfer Form, and irrevocable Power of Attorney contained therein, and the certificate or certificates representing all of the Shares held by such Shareholder or a letter of indemnity reasonably acceptable to Offeror, in each case, from Shareholders representing at least 98% of the issued share capital of the Company provided that this condition shall not be satisfied if more than ten Shareholders do not so accept the Offer as of the Closing Date.

(g) ADDITIONAL CONDITIONS. Such additional actions set forth in this Agreement that are required to be completed as of the Closing shall have been completed, including without limitation the actions set forth in Sections 1.3 and 2.2.

(h) MIRVO STOCK. Genetics Group AG shall procure that Scientific Generics Ltd. shall use best efforts to transfer to the Company 20% of the shares of Series A Preferred Stock of Zowie (formerly Mirvo Toys, Inc.) held by it as of the Effective Date, which based on documentation provided to the Company would be 129,033 shares.

(i) NEW ISSUES. No further shares in the Company shall be issued between the Effective Date and Closing.

SECTION 8

ESCROW AND INDEMNIFICATION

8.1 SURVIVAL OF REPRESENTATIONS AND WARRANTIES. All covenants to be performed prior to the Closing Date, and all representations and warranties in this Agreement or in any instrument delivered pursuant to this Agreement shall survive the consummation of the Purchase and continue until the two year anniversary of the Closing Date (the "Escrow Termination Date"); provided that if any claims for indemnification have been asserted with respect to any such representations and warranties prior to the Escrow Termination Date, the representations and warranties on which any such claims are based shall continue in effect until final resolution of any claims. All covenants to be performed after the Closing Date shall continue indefinitely.

8.2 ESCROW FUND. As soon as practicable after the Closing Date, all shares of Synaptics' Stock that each Principal Shareholder is entitled to receive in the Purchase pursuant to Section 2.4(b) and subject to the conditions set forth in Section 2.4(b) (the "Escrow Shares") shall, without any act of any Principal Shareholders, be registered in the name of, and be deposited with a financial institution selected by Offeror and reasonably acceptable to the Principal Shareholders' Representative as escrow agent (the "Escrow Agent"), such deposit to constitute the escrow fund (the "Escrow Fund") and to be governed by the terms set forth herein and in the Escrow Agreement attached hereto as Exhibit E (the "Escrow Agreement"); provided, however, Generics Group AG shall contribute to the Synaptics' Escrow additional Synaptics' Stock equal to the number of Escrow Shares Inter Ikea Finance SA would have contributed to the Escrow if it were a Principal Shareholder under this Agreement. In the event that any Damages (as defined below) arise, the Escrow Fund shall be available to compensate the Indemnified Persons (defined below) pursuant to the indemnification obligations of the Principal Shareholders pursuant to Section 8.3 and in accordance with the Escrow Agreement.

8.3 INDEMNIFICATION.

(a) INDEMNIFIED DAMAGES. Subject to the limitations set forth in this Section 8, from and after the Closing Date, the Principal Shareholders shall protect,

defend, indemnify and hold harmless Offeror and its affiliates, officers, directors, employees, representatives and agents and the Company (each an "Indemnified Person" and collectively "Indemnified Persons") from and against in the case of Sections 8.3(a)(i) and 8.3(a)(iii) below, 100% of, and in the case of Section 8.3(a)(ii) below, 50% of any and all losses, costs, damages, liabilities, fees (including without limitation attorneys' fees) and expenses (including amounts required to be paid by the Company or the Principal Shareholders as set forth in Section 12.13) (collectively, the "Damages"), that any of the Indemnified Persons incurs by reason of or in connection with (i) any claim, demand, action or cause of action alleging misrepresentation, breach of, or default in connection with any of the representations, warranties, covenants, indemnities or agreements of the Principal Shareholders contained in this Agreement or the Offer Document, including any exhibits or schedules attached hereto or thereto which becomes known to Offeror during the Escrow Period, (ii) any legal proceedings duly served during the Escrow Period upon an Indemnified Person by Wacom, Inc. or any members of its group alleging breach or infringement by the Company of any patent held by Wacom, Inc. or any members of its group as a consequence of an Indemnified Person seeking to exploit the Company's technology existing as of the Closing Date, as demonstrated by the Company's records as of the Closing Date. Damages in each case shall be net of the amount of any insurance proceeds and indemnity and contribution actually recovered by Offeror and, where applicable, the Offeror shall pursue any claim it or the Company may have under any applicable insurance policy or against any person from whom such indemnity or contribution may be recoverable or (iii) any commission or compensation in the nature of a finder's fee for which the Company is responsible as a result of the transactions contemplated by this Agreement, including without limitation any fees owing under agreements with Beeson Gregory.

(b) EXCLUSIVE CONTRACTUAL REMEDY AND LIMITATIONS. Offeror and the Principal Shareholders each acknowledge that Damages, if any, would relate to unresolved contingencies existing at the Closing Date, which if resolved at the Closing Date would have led to a reduction in the total consideration Offeror would have agreed to pay in connection with the Purchase. Resort to the Escrow Fund shall be the exclusive contractual remedy of Offeror for any Damages if the Purchase closes. The maximum liability of any Principal Shareholder for any breach of a representation, warranty or covenant of the Principal Shareholder shall be limited to Escrow Shares in which such Principal Shareholder has an interest that are held pursuant to the Escrow Agreement; provided, however, that nothing herein shall limit the liability of the Principal Shareholders for Damages: (i) arising from any breach by such Shareholder of representation, warranty or covenant if the Purchase does not close, (ii) in connection with any breach by such shareholder of the Offer Document, Deed of Tax Covenant, Non-Competition Agreement or Escrow Agreement, and (iii) arising from such person's or entity's fraud or intentional misrepresentation.

8.4 DAMAGES THRESHOLD. Notwithstanding the foregoing, Offeror may not receive any amount of the Escrow Shares from the Escrow Fund unless and until a certificate

signed by an officer of Offeror (an "Officer's Certificate") identifying

Damages in the aggregate amount in excess of $100,000 has been delivered to the Escrow Agent and such amount is determined pursuant to this Section 8 and the terms of the Escrow Agreement to be payable, in which case Offeror shall receive Escrow Shares equal in value to the full amount of such Damages without deduction; provided, however, any amounts required to be paid by the Principal Shareholders as set forth in Sections 8.3(a)(ii), 8.3(a)(iii) or 12.13 shall not be subject to the above $100,000 threshold and may be paid, at Offeror's option, out of the Escrow Shares. In determining the amount of any Damages attributable to a breach, any materiality standard contained in a representation, warranty or covenant of Offeror shall be disregarded.

8.5 ESCROW PERIOD. Subject to the following requirements, the Escrow Fund shall remain in existence until the Escrow Termination Date (the "Escrow Period"). Upon the expiration of the Escrow Period, the Escrow Fund shall terminate with respect to all Escrow Shares; provided, however, that the number of Escrow Shares, which, in the reasonable judgment of Offeror, subject to the objection of the Principal Shareholders' Representative (as defined in Section 8.8 below) and the subsequent arbitration of the claim in the manner provided in the Escrow Agreement, are necessary to satisfy any unsatisfied claims specified in any Officer's Certificate delivered to the Escrow Agent prior to the expiration of such Escrow Period with respect to facts and circumstances existing on or prior to the Escrow Termination Date shall remain in the Escrow Fund (and the Escrow Fund shall remain in existence) until such claims have been resolved. As soon as all such claims have been resolved, the Escrow Agent shall deliver to the Principal Shareholders all Escrow Shares and other property remaining in the Escrow Fund and not required to satisfy such claims. Deliveries of Escrow Shares to the Principal Shareholders pursuant to this Section 8.5 and the Escrow Agreement shall be made in proportion to their respective original contributions to the Escrow Fund.

8.6 DISTRIBUTIONS; VOTING.

(a) Any shares of Synaptics' Stock or other equity securities issued or distributed by Offeror (including shares issued upon a stock split) ("New Shares") in respect of the Escrow Shares that have not been released from the Escrow Fund shall be added to the Escrow Fund and become a part thereof. When and if cash dividends on Escrow Shares in the Escrow Fund shall be declared and paid, they shall be retained in escrow pending final distribution of the Escrow Fund and will not be immediately distributed to the beneficial owners of the Escrow Shares. Such dividends will become part of the Escrow Fund and will be available to satisfy Damages. Offeror shall pay any taxes on such dividends out of the Escrow Fund.

(b) Each Principal Shareholder shall have voting rights with respect to that number of Escrow Shares contributed to the Escrow Fund on behalf of such Principal Shareholder (and on any voting securities added to the Escrow Fund in respect of such Escrow Shares) so long as such Escrow Shares or other voting securities are held in the Escrow Fund. As the record holder of such shares, the Escrow Agent shall vote such shares in accordance with the instructions of the Principal Shareholders having the beneficial interest therein and shall promptly deliver copies of all proxy solicitation materials to such

Principal Shareholders. Offeror shall show the Synaptics' Stock contributed to the Escrow Fund as issued and outstanding on its balance sheet.

8.7 METHOD OF ASSERTING CLAIMS. All claims for indemnification by any Indemnified Person pursuant to this Section 8 shall be made in accordance with the provisions of the Escrow Agreement.

8.8 REPRESENTATIVE OF THE PRINCIPAL SHAREHOLDERS; POWER OF ATTORNEY. The Director of Finance of Generics Group Ltd., currently Martin Frost, shall be appointed as agent and attorney-in-fact (the "Principal Shareholders' Representative") for each Principal Shareholder for and on behalf of the Principal Shareholders, to give and receive notices and communications on

behalf of the Principal Shareholders, to enter into and perform the Escrow Agreement, to authorize delivery to Offeror of Escrow Shares or other property from the Escrow Fund in satisfaction of claims by Offeror or any other Indemnified Person, to object to such deliveries, to agree to, negotiate, enter into settlements and compromises of, and demand arbitration and comply with orders of courts and awards of arbitrators with respect to such claims, and to take all actions necessary or appropriate in the judgment of Principal Shareholders' Representative for the accomplishment of the foregoing.

SECTION 9

TERMINATION; SURVIVAL AND EFFECT OF TERMINATION

9.1 TERMINATION. Notwithstanding anything herein to the contrary, this Agreement may be terminated and the transactions contemplated hereby abandoned at any time prior to the Closing Date:

(a) By mutual written consent of Offeror and the Principal Shareholders' Representative;

(b) By Offeror, if any of the conditions set forth in Sections 7.1 and 7.3 shall have become reasonably incapable of fulfillment prior to October 31, 1999, through no fault of Offeror, and such condition(s) shall not have been waived in writing by Offeror;

(c) By the Principal Shareholders' Representative, if any of the conditions set forth in Sections 7.1 and 7.2 shall have become reasonably incapable of fulfillment prior to October 31, 1999, through no fault of the Principal Shareholders, and such condition(s) shall not have been waived in writing by the Principal Shareholders' Representative;

(d) By either Offeror or the Principal Shareholders' Representative if (i) the other (Offeror on the one hand or any Principal Shareholder on the other) has breached this Agreement in any material respect, or (ii) the Closing does not occur on or before October 31, 1999 (unless such date is extended by the mutual agreement of Offeror and a majority in interest of the Shareholders), but only if the failure to consummate such transaction on or before such date did not result from the failure by the party(ies) seeking such termination to fulfill any condition set forth in Section 7 which is a condition precedent to the

obligation of the other under this Agreement to consummate the transactions contemplated hereby.

9.2 SURVIVAL. If this Agreement is terminated prior to Closing and the transactions contemplated hereby are not consummated as described above, this Agreement shall become void and of no further force and effect, except for the provisions of Section 9 (relating to termination); Section 10.5 (relating only to the obligations of confidentiality and not those regarding access of information); Section 10.6 (relating to disclosure, except that the first sentence regarding access to records shall be of no further force and effect); and Section 12 (relating to certain miscellaneous provisions).

SECTION 10

COVENANTS OF THE PRINCIPAL SHAREHOLDERS

10.1 CONDUCT OF BUSINESS OF THE COMPANY. During the period from the date of this Agreement and continuing until the earlier of the termination of this Agreement or the Closing Date, the Principal Shareholders shall cause or procure the Company (except to the extent expressly contemplated by this Agreement or as consented to in writing by Offeror), to carry on its and its Subsidiaries' business in the usual, regular and ordinary course in substantially the same manner as heretofore conducted, to pay and to cause its Subsidiaries to pay debts and Taxes when due subject (i) to good faith disputes over such debts or Taxes and (ii) to Offeror's consent to the

filing of material tax returns if applicable, to pay or perform other obligations when due, and to use best efforts consistent with past practice and policies to preserve intact its and its Subsidiaries' present business organization, keep available the services of its and its Subsidiaries' present officers and key employees and preserve its and its Subsidiaries' relationships with customers, suppliers, distributors, licensors, licensees, and others having business dealings with it or its Subsidiaries, to the end that its and its Subsidiaries' goodwill and ongoing businesses shall be unimpaired at the Closing Date. The Principal Shareholders shall cause or procure the Company to promptly notify Offeror of any event or occurrence not in the ordinary course of its or its Subsidiaries' business, and of any event which could have a Material Adverse Effect. Without limiting the foregoing, except as expressly contemplated by this Agreement, the Principal Shareholders shall cause or procure the Company or any of its Subsidiaries to not do, allow or permit any of thc following, without the prior written consent of Offeror:

(a) CHARTER DOCUMENTS. Cause or permit any amendments to the Memorandum or Articles of Association, except as permitted under this Agreement;

(b) ISSUANCE OF SECURITIES. Issue, deliver or sell or authorize or propose the issuance, delivery or sale of, or purchase or propose the purchase of, any shares of its capital stock or securities convertible into, or subscriptions, rights, warrants or options to acquire, or other agreements or commitments of any character obligating it to issue any such shares or other convertible securities, other than the issuance of shares of its Ordinary Shares pursuant to the exercise of stock options, warrants or other rights therefor outstanding as of the date of this Agreement and the issuance of shares of its Ordinary Shares as provided in Section 10.2 below;

(c) DIVIDENDS; CHANGES IN CAPITAL STOCK. Declare or pay any dividends on or make any other distributions (whether in cash, stock or property) in respect of any of its capital stock, or split, combine or reclassify any of its capital stock or issue or authorize the issuance of any other securities in respect of, in lieu of or in substitution for shares of its capital stock, or repurchase, redeem or otherwise acquire, directly or indirectly, any shares of its capital stock;

(d) STOCK OPTION PLANS, ETC. Authorize cash payments in exchange for any options or other rights granted under any of the Company's stock plans.

(e) MATERIAL CONTRACTS. Enter into any material contract or commitment, or violate, amend or otherwise modify or waive any of the terms of any of its material contracts, other than in the ordinary course of business consistent with past practice;

(f) INTELLECTUAL PROPERTY. Transfer to any person or entity any rights to its Intellectual Property other than in the ordinary course of business consistent with past practice;

(g) EXCLUSIVE RIGHTS. Enter into or amend any agreements pursuant to which any other party is granted exclusive marketing or other exclusive rights of any type or scope with respect to any of its products or technology;

(h) DISPOSITIONS. Sell, lease, license or otherwise dispose of or encumber any of its properties or assets which are material, individually or in the aggregate, to its and its Subsidiaries' business, taken as a whole, except in the ordinary course of business consistent with past practice;

(i) INDEBTEDNESS. Incur any indebtedness for borrowed money or guarantee any such indebtedness or issue or sell any debt securities or guarantee any debt securities of others;

(j) AGREEMENTS. Enter into any agreement in which the obligation of the Company exceeds $50,000 or which shall not terminate or be subject to termination for convenience within 180 days following execution of such agreement or any agreement not in the ordinary course of business and consistent with past practice;

(k) PAYMENT OF OBLIGATIONS. Pay, discharge or satisfy in an amount in excess of $25,000 in any one case or $50,000 in the aggregate, any claim, liability or obligation (absolute, accrued, asserted or unasserted, contingent or otherwise) arising other than in the ordinary course of business, other than the payment, discharge or satisfaction of liabilities reflected or reserved against in the Company Financial Statements;

(l) CAPITAL EXPENDITURES. Make any capital expenditures, capital additions or capital improvements except in the ordinary course of business and consistent with past practice and not exceeding $50,000 in the aggregate;

(m) INSURANCE. Materially reduce the amount of any material insurance coverage provided by existing insurance policies;

(n) TERMINATION OR WAIVER. Terminate or waive any right of substantial value, other than in the ordinary course of business;

(o) EMPLOYEE BENEFIT PLANS; NEW HIRES; PAY INCREASES. Adopt or amend any employee benefit or stock purchase or option plan, or hire any new director level or officer level employee (except that it may hire a replacement for any current director level or officer level employee if it first provides Offeror advance notice regarding such hiring decision), pay any special bonus or special remuneration to any employee or director, or increase the salaries or wage rates of its employees;

(p) SEVERANCE ARRANGEMENT. Grant any severance or termination pay (i) to any director or officer or (ii) to any other employee except (A) payments made pursuant to standard written agreements outstanding on the date hereof or (B) payments made in the ordinary course of business in accordance with its standard past practice not exceeding $50,000 in the aggregate;

(q) LAWSUITS. Commence a lawsuit other than (i) for the routine collection of bills, (ii) in such cases where it in good faith determines that failure to commence suit would result in the material impairment of a valuable aspect of its business, provided that it consults with Offeror prior to the filing of such a suit, or (iii) for a breach of this Agreement;

(r) ACQUISITIONS. Acquire or agree to acquire by merging or consolidating with, or by purchasing a substantial portion of the assets of, or by any other manner, any business or any corporation, partnership, association or other business organization or division thereof, or otherwise acquire or agree to acquire any assets which are material, individually or in the aggregate, to its and its Subsidiaries' business, taken as a whole;

(s) TAXES. Other than in the ordinary course of business, make or change any material election in respect of Taxes, adopt or change any accounting method in respect of Taxes, file any material tax return or any amendment to a material tax return, enter into any closing agreement, settle any claim or assessment in respect of Taxes, or consent to any extension or waiver of the limitation period applicable to any claim or assessment in respect of Taxes;

(t) NOTICES. Fail to give any notices or other information required to be given to the employees of the Company, any collective bargaining unit representing any group of employees of the Company, and any applicable government authority under applicable law in connection with the transactions provided for in this Agreement;

(u) REVALUATION. Revalue any of its assets, including without limitation writing down the value of inventory or writing off notes or accounts receivable other than in the ordinary course of business; or

(v) OTHER. Take, or agree in writing or otherwise to take, any of the actions described in Sections 10.1(a) through (u) above.

10.2 CASH CONTRIBUTIONS BY GENERICS GROUP AG AND OFFEROR. In order to ensure the obligations of the Principal Shareholders under Section 10.1 above and to ensure that as of the Closing Date the Company's Current Assets (as defined in Section 7.3(b)) minus Current Liabilities (as defined in Section 7.3(b) are no less than zero minus $80,000, Generics Group AG shall make capital contributions to the Company to fund (I) all liabilities (including legal fees and expenses of the Company and the Shareholders in connection with this Agreement and the Offer Document, which shall be the sole responsibility of the Company and the Shareholders pursuant to Section 12.13) incurred by the Company through September 22, 1999 and (ii) for liabilities incurred by the Company after September 22, 1999, all liabilities incurred by the Company (including legal fees and expenses of the Company and the Shareholders in connection with this Agreement and the Offer Document) except liabilities to be assumed by Offeror in the Closing as set forth below. Offeror hereby assumes fifty percent (50%) of normal business expenses (as determined by Offeror in good faith) incurred by the Company after September 22, 1999 and before 1 October 1999 and thereafter all such normal business expenses; provided, however Offeror shall (subject to the following proviso of this Section 10.2) have no obligations under this Section 10.2 if the Purchase does not occur and Offeror's obligations under this Section 10.2 shall in no event (except as set forth below) exceed $80,000; provided further, however, if the Purchase does not occur because the conditions in Section 7.3(f) are not fulfilled through no fault of a Principal Shareholder, Offeror's obligations under this Section 10.2 shall remain, but instead shall not exceed $160,000. Generics Group AG shall be issued additional Ordinary Shares of the Company prior to the Closing at a price not to exceed 7.60 pounds sterling per Share in consideration of capital contributions made pursuant to this Section 10.2.

10.3 TRANSACTIONS WITH SHAREHOLDERS. The Principal Shareholders shall use their best efforts and cooperate with Offeror to enable the Offeror to issue a general offer memorandum, in the form attached as Exhibit B to the Shareholders for the purpose of procuring executed acceptances of the Offer and all documents contemplated thereby, by the other Shareholders prior to the Closing. The Principal Shareholders shall indemnify and hold harmless the Indemnified Parties for all Damages incurred as a result of or in connection with any and all claims by any Shareholders based upon or resulting from information provided to such Shareholder that has not been provided by Offeror in connection with the sale of the Shares by such Shareholder to the Offeror under this Agreement.

10.4 NO SOLICITATION. The Principal Shareholders will not, directly or indirectly, (i) take any action to solicit, initiate, entertain or encourage any Takeover Proposal (defined below) or (ii) engage in negotiations with, or disclose any nonpublic information relating to the Company or any of it Subsidiaries to, or afford access to the properties, books or records of the Company or any of its Subsidiaries to, any person that has advised the Company that it may be considering making, or that has made, a Takeover Proposal. The Principal Shareholders will promptly notify Offeror after receipt of any Takeover Proposal or any notice that any person is considering making a Takeover Proposal or any request for nonpublic information relating to the Company or any of

its Subsidiaries or for access to the properties, books or records of the Company or any of its Subsidiaries by any person that has advised the Company that it may be considering making, or that has made, a Takeover Proposal and will keep Offeror fully informed of the status and details of

any such Takeover Proposal notice or request. For purposes of this Agreement, "Takeover Proposal" means any offer or proposal for, or any indication of interest in, a Purchase or other business combination involving the Company or any of its Subsidiaries or the acquisition of any significant equity interest in, or a significant portion of the assets of, the Company or any of its Subsidiaries, other than the transactions contemplated by this Agreement.

10.5 ACCESS; CONFIDENTIALITY. The Principal Shareholders shall cause or procure the Company to make available all books, records, facilities, employees, non-employee agents (such as patent and regulatory counsel) and information necessary for Offeror to evaluate the business, operations, properties and financial condition of the Company. Offeror shall keep confidential and shall not make use of any information treated by the other party as confidential (including, without limitation, the existence of this Agreement), obtained from the other party concerning the assets, properties, business or operations of the other party other than to legal counsel, consultants, financial advisors, key employees, lenders and investment bankers where such disclosure is related to the performance of obligations under this Agreement or the consummation of the transactions contemplated under this Agreement (all of whom shall be similarly bound by the provisions of this Section 10.3), except as may be required to be disclosed by applicable law. Notwithstanding the foregoing, the foregoing confidentiality restrictions shall not apply to any information which (a) becomes generally available to the public through no fault of the receiving party or its employees, agents or representatives; (b) is independently developed by the receiving party without benefit of the above-described information (and such independent development is substantiated in writing), or rightfully received from another source on a non-confidential basis; (c) when such disclosure is required by a court or governmental authority or is otherwise required or permitted by law (including, without limitation, filings required or permitted to be made with the SEC or any other governmental or regulatory agency) or is necessary to establish rights under this Agreement or any agreement contemplated hereby(and the disclosing party has taken all reasonable efforts to limit the scope of such disclosure and to protect the confidential nature of the information disclosed).

10.6 PUBLIC ANNOUNCEMENTS. All parties hereto agree that Offeror will be responsible for any press release or publication with respect to the existence of this Agreement or the transactions contemplated hereby and further agree to cooperate in good faith with respect to any such press release or public statement, and, except as may be required by law, further agree not to issue any such press release or public statement without the prior written consent of Offeror (in the case of a publication proposed by the Company and/or a Shareholder). Offeror agrees to provide any such press release or public statement to the Principal Shareholder Representative in advance of publication and provide the Principal Shareholder Representative a reasonable opportunity to review and approve such publication.

10.7 COOPERATION. Each Party hereto will fully cooperate with the other parties, their counsel and accountants in connection with any steps required to be taken as part of

its obligations under this Agreement. Each party will use reasonable efforts to cause all conditions to this Agreement to be satisfied as promptly as possible and to obtain all consents and approvals necessary for the due and punctual performance of this Agreement and for the satisfaction of the conditions hereof. No party will undertake any course of action inconsistent with this Agreement or which would make any representations, warranties or agreements made by such party in this Agreement untrue or any conditions precedent to this Agreement unable to be satisfied at or prior to the Closing. Principal Shareholders will use their best efforts and cause or procure the Company to assist Offeror (at Offeror's cost) as may be necessary to comply with the securities and blue sky laws of all jurisdictions that are applicable in connection with the issuance of Synaptics' Stock pursuant hereto.

10.8 EMPLOYEES OF THE BUSINESS. Between the date of this Agreement and the Closing Date, the Principal Shareholders shall cooperate with Offeror to enable it to determine the employment terms of Company employees after the Closing Date, including allowing Offeror, if reasonably acceptable to the Principal Shareholders' Representative, to discuss directly with employees of the Company their employment with Offeror after the Closing Date.

10.9 NOTIFICATION OF CLAIMS. From the date of this Agreement to and including the Closing Date, the Principal Shareholders shall and shall cause or procure the Company to promptly notify Offeror in writing of the commencement or threat of any claims, litigation or proceedings against or affecting the Company of which the Company and/or the Principal Shareholders have knowledge.

10.10 FURTHER ACTS. After the Closing Date, each party hereto, at the request of and without any further cost or expense to the other parties will take any further actions necessary or desirable to carry out the purposes of this Agreement and to vest in Offeror the full benefit of the rights, powers and remedies conferred upon the Offeror or this Agreement. In addition, without in any way limiting the generality of the foregoing, and, to the extent required, the Principal Shareholders hereby agree to procure Scientific Generics Ltd. to take any and all further actions necessary or desirable to carry out the assignment to the Company of all Intellectual Property.

SECTION 11

COVENANTS OF OFFEROR

11.1 BLUE SKY LAWS. Offeror shall take such steps as may be necessary to comply with the securities and Blue Sky Laws of all jurisdictions which are applicable to the issuance of the Synaptics' Stock pursuant hereto.

11.2 CONDUCT OF BUSINESS OF OFFEROR. During the period from the date of this Agreement and continuing until the earlier of the termination of this Agreement or the Closing Date, Offeror agrees (except to the extent that the Principal Shareholders'

Representative shall otherwise consent in writing) that Offeror shall promptly notify the Principal Shareholders' Representative of any event or occurrence or emergency that is not in the ordinary course of business of Offeror and that is material and adverse to the business of Offeror.

SECTION 12

MISCELLANEOUS

12.1 SURVIVAL OF WARRANTIES. The representations, warranties and agreements set forth in this Agreement or in any instrument delivered pursuant to this Agreement (excluding the Offer Document, Deed of Tax Covenant and the Deed of Non-Competition) shall survive the Closing and (except to the extent that survival is necessary to effectuate the intent of such provisions, including the provisions of Section 8) shall terminate on the second anniversary of the Closing Date. The representations, warrants and agreements set forth in the Offer Document, Deed of Tax Covenant and Deed of Non-Competition shall survive in perpetuity, except as otherwise set forth in such agreements or deeds.

12.2 NOTICES. Any notice required or permitted by this Agreement shall be in writing and shall be deemed sufficient upon receipt, when delivered personally or by courier, overnight delivery service or confirmed facsimile, or forty-eight (48) hours after being deposited in the regular mail as certified or registered mail (airmail if sent internationally) with postage prepaid, if such notice is addressed to the party to be notified at such party's address or facsimile number as set forth below, or as subsequently modified by written notice,

(a) if to Offeror, to:

Synaptics, Incorporated
2702 Orchard Parkway
San Jose, CA 95134
Attention: Francis Lee
Facsimile No.: (408) 434-9819
Telephone No.: (408) 434-0110

with a copy to:
Venture Law Group
2800 Sand Hill Road
Menlo Park, CA 94025
Attention: John V. Bautista
Facsimile No.: (650) 233-8386
Telephone No.: (650) 854-4488

(b) if to the Company, to:

Absolute Sensors Limited
Harston Mill, Harston
Cambridge, CB2 5NH UK
Attention: Managing Director
Facsimile No.: 01223-875201
Telephone No.: 01223-875200

(c) if to the Principal Shareholders' Representative, to:

Director of Finance for the Generics Group Ltd.
The Generics Group Ltd.
Harston Mill, Harston
Cambridge, CB2 5NH UK
Facsimile No.: 01223-875201
Telephone No.: 01223-875200

with a copy to:
The Generics Group Ltd.
Harston Mill, Harston
Cambridge, CB2 5NH UK
Attention: Managing Director
Facsimile No.: 01223-875201
Telephone No.: 01223-875200

12.3 INTERPRETATION. When a reference is made in this Agreement to Exhibits, such reference shall be to an Exhibit to this Agreement unless otherwise indicated. The words "include," "includes" and "including" when used herein shall be deemed in each case to be followed by the words "without limitation." The phrase "made available" in this Agreement shall mean that the information referred to has been made available if requested by the party to whom such information is to be made available. The phrases "the date of this Agreement," "the date hereof," and terms of similar import, unless the context otherwise requires, shall be deemed to refer to the Effective Date. The table of contents and headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement.

12.4 COUNTERPARTS. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original and all of which together shall constitute one instrument.

12.5 ENTIRE AGREEMENT; NONASSIGNABILITY; PARTIES IN INTEREST. This Agreement and the documents referred to herein are the product of all of the parties hereto, and constitute the entire agreement between such parties pertaining to the subject matter hereof and thereof, and merge all prior negotiations and drafts of the parties with regard to the transactions contemplated herein and therein. Any and all other written or oral agreements existing between the parties hereto regarding such transactions are expressly cancelled and are not intended to confer upon any other person any rights or remedies hereunder.

12.6 BINDING EFFECT AND ASSIGNMENT. This Agreement and all of the provisions hereof shall be binding upon and inure to the benefit of the Parties hereto and their respective successors and permitted assigns; provided, however, that except as otherwise specifically provided herein, neither this Agreement nor any of the rights, interests or obligations of the parties hereto may be assigned by operation of law or otherwise by a Party hereto without the prior written consent of the other Parties hereto.

12.7 SEVERABILITY. If one or more provisions of this Agreement are held to be unenforceable under applicable law, the parties agree to renegotiate such provision in good faith, in order to maintain the economic position enjoyed by each party as close as possible to that under the provision rendered unenforceable. In the event that the parties cannot reach a mutually agreeable and enforceable replacement for such provision, then (i) such provision shall be excluded from this Agreement, (ii) the balance of the Agreement shall be interpreted as if such provision were so excluded and (iii) the balance of the Agreement shall be enforceable in accordance with its terms.

12.8 REMEDIES CUMULATIVE. Except as otherwise provided herein, any and all remedies herein expressly conferred upon a party will be deemed cumulative with and not exclusive of any other remedy conferred hereby, or by law or equity upon such party, and the exercise by a party of any one remedy will not preclude the exercise of any other remedy.

12.9 GOVERNING LAW. This Agreement and all acts and transactions pursuant hereto and the rights and obligations of the parties hereto shall be governed, construed and interpreted in accordance with the laws of the State of California, without giving effect to principles of conflicts of law. Each of the parties hereto irrevocably consents to the exclusive jurisdiction and venue of any court within Santa Clara County, State of California, in connection with any matter based upon or arising out of this Agreement or the matters contemplated herein, agrees that process may be served upon them in any manner authorized by the laws of the State of California for such persons and waives and covenants not to assert or plead any objection which they might otherwise have to such jurisdiction, venue and such process.

12.10 RULES OF CONSTRUCTION. The parties hereto agree that they have been represented by counsel during the negotiation, preparation and execution of this Agreement and, therefore, waive the application of any law, regulation, holding or rule of construction providing that ambiguities in an agreement or other document will be construed against the party drafting such agreement or document.

12.11 WAIVER OF RESTRICTIONS. Principal Shareholders shall procure that all other shareholders of the Company waive any restrictions on transfer applicable to their shares with respect to the transfers pursuant to the Offer.

12.12 AMENDMENTS AND WAIVERS. Any term of this Agreement may be amended or waived only with the written consent of the Parties or their respective successors and assigns. Any amendment or waiver effected in accordance with this Section 12.11 shall be binding upon the parties and their respective successors and assigns.

12.13 FEES. The Principal Shareholders (as to each such Shareholder, jointly and severally) agree to pay the fees and expenses of their legal counsel, financial advisors and other agents incurred in connection with the negotiation, execution and carrying out of their obligations under this Agreement. The Offeror shall pay fifty per cent of the fees of the financial advisor retained by the Company in connection with the approval by its directors of the Offer Document if the Purchase does not occur through no fault of the Company or the Principal Shareholders; and provided further however that Offeror shall in no event be required to pay in excess of L15,000 hereunder. Fees and expenses of the Principal Shareholders and the Company invoiced to the Company will be deducted by Offeror from the Cash Consideration or the Escrow Shares to which the Principal Shareholders are entitled, at Offeror's sole election.

The parties have duly executed this Stock Purchase Agreement as of the date first above written.

SYNAPTICS INCORPORATED

Name: Francis Lee

By: /s/ Francis Lee

Title President

THE GENERICS GROUP AG

Name: Gordon Malcolm Edge

By: /s/ Gordon Malcolm Edge

Title Director

Name: Martin John Frost

By: /s/ M J Frost

Title Director

DAVID ELY

Name: David Ely

Signature: /s/ David Ely

IAN COLLINS

Name: Ian Collins

Signature: /s/ Ian Collins

PRINCIPAL SHAREHOLDERS' REPRESENTATIVE

Name: Martin John Frost

Signature: /s/ M J Frost

1

EXHIBIT 10.10

LEASE

BY AND BETWEEN

SILICON VALLEY PROPERTIES, LLC,
A DELAWARE LIMITED LIABILITY COMPANY
AS LANDLORD

AND

SYNAPTICS, INC.
A CALIFORNIA CORPORATION
AS TENANT

FOR PREMISES LOCATED AT
2381 BERING DRIVE, SAN JOSE, CALIFORNIA

2

TABLE OF CONTENTS

3

SUMMARY OF BASIC LEASE TERMS

SECTION (LEASE REFERENCE)		TERMS
A. (Introduction)	Lease Reference Date:	September 17, 1999
B. (Introduction)	Landlord:	SILICON VALLEY PROPERTIES, LLC a Delaware limited liability company

C. (Introduction) Tenant: SYNAPTICS, INC.
a California corporation

D. (Section 1.21) Premises: That area consisting of approximately 34,660 square feet of gross leasable area the address of which is 2381 Bering Drive, San Jose, California, within the Building as shown on Exhibit A.

E. (Section 1.22) Project: The land and improvements shown on Exhibit A consisting of multiple buildings the aggregate gross leasable area of which is approximately 203,500 square feet.

F. (Section 1.7) Building: The building in which the Premises are located known as 2381 Bering Drive, San Jose, California, containing approximately 34,660 square feet of gross leasable area.

G. (Section 1.29) Tenant's Share: 100% of the Building (i.e., 34,660/34,660)
17.03% of the Project (i.e., 34,660/203,500)

H. (Section 4.5) Tenant's Allocated Parking Stalls: Tenant shall be entitled to use Tenant's Share the parking available to the Building.

I. (Section 1.26) Scheduled Commencement Date: December 1, 1999

J. Lease Term: Sixty-four (64) calendar months, plus, if the Commencement Date is other than the first day of a calendar month, the first month shall include the remainder of the calendar month in which the Commencement Date occurs plus the first full calendar month thereafter; provided, however, that the inclusion of any partial month in the first full calendar month shall not entitle Tenant to any additional free rent. Any free rent shall be applied on a daily basis (based on a 30 day month) so that Tenant does not receive additional free rent if the first month includes a full calendar month plus any partial month. Base Monthly Rent and Additional Rent for any partial month shall be prorated on a daily basis.

K. (Section 3.1) Base Monthly Rent:

Months (following the Commencement Date)	Base Monthly Rent
1 - 4 (the "Free Rent Period")	-0-
5 - 16	$53,723.00
17 - 28	$55,456.00
29 - 40	$57,189.00
41 - 52	$58,922.00
53 - 64	$60,655.00

During the Free Rent Period, no Base Monthly Rent shall be due and payable, but all Additional Rent, including, without limitation, "Tenant's Share" of "Common Operating Expenses" (as such terms are hereinafter defined) shall be due and payable. If the Commencement Date is other than the first day of a calendar month, then the Free Rent Period shall be calculated on the basis of a 30 day month and applied on a daily basis.

L. (Section 3.3) Prepaid Rent: $53,723.00

4

M. (Section 3.5) Security Deposit: $60,655.00

N. (Section 4.1) Permitted Use: General office, sales, storage, distribution, and marketing of computer related equipment and software. Any change in use shall be subject to the reasonable consent of Landlord as provided in section 4.1 hereof.

O. (Section 5.2) Permitted Tenant's Alterations limit: $10,000.00

P. (Section 9.1) Tenant's Liability Insurance Minimum: $3,000,000.00

Q. (Section 1.3) Landlord's Address: c/o The Martin Group
2290 North First Street, Suite 108
San Jose, California 95131
Attn: Property Manager

With a copy to: Divco West Group, LLC
150 Almaden Blvd., Suite 150
San Jose, CA 95113
Attn.: Asset Manager

R. (Section 1.3) Tenant's Address: Prior to the Commencement Date:
Synaptics, Inc.
2702 Orchard parkway
San Jose, CA 95134
Attn.: Miriam Watson

After the Commencement Date:
Synaptics, Inc.
2381 Bering Drive
San Jose, CA
Attn.: Miriam Watson

S. (Section 15.13) Retained Real Estate Brokers: Wayne Mascia Associates representing Tenant and Colliers Parrish International, Inc. representing Landlord.

T. (Section 1.17) Lease: This Lease includes the summary of the Basic Lease Terms, the Lease, and the following exhibits and addenda which are attached hereto and incorporate herein by this reference:

Exhibit A - Project Site Plan and Outline of the Premises
Exhibit B - Work Letter for Tenant Improvements
Exhibit C - Acceptance Agreement

The foregoing Summary is hereby incorporated into and made a part of this Lease. Each reference in this Lease to any term of the Summary shall mean the respective information set forth above and shall be construed to incorporate all of the terms provided under the particular paragraph pertaining to such information. In the event of any conflict between the Summary and the Lease, the Summary shall control.

LANDLORD:

SILICON VALLEY PROPERTIES, L.L.C.
a Delaware limited liability company

By: Divco West Group, LLC,
a Delaware limited liability company

Its Agent

By: /s/ Scott Smithers
Name: Scott Smithers
Its: President

Dated: September __, 1999

TENANT:

By: SYNAPTICS, INC.,
a California corporation

By: /s/ M. Visneski
Name: M. Visneski
Title: Corp. Controller

Dated: September 16, 1999

LEASE

This Lease is dated as of the lease reference date specified in Section A of the Summary and is made by and between the party identified as Landlord in Section B of the Summary and the party identified as Tenant in Section C of the Summary.

ARTICLE 1 DEFINITIONS

1.1 General: Any initially capitalized term that is given a special meaning by this Article 1, the Summary, or by any other provision of this Lease (including the exhibits attached hereto) shall have such meaning when used in this Lease or any addendum or amendment hereto unless otherwise clearly indicated by the context.

1.2 Additional Rent: The term "Additional Rent" is defined in paragraph 3.2.

1.3 Address for Notices: The term "Address for Notices" shall mean the addresses set forth in Sections Q and R of the Summary; provided, however, that after the Commencement Date, Tenant's Address for Notices shall be the address of the Premises.

1.4 Agents: The term "Agents" shall mean the following: (i) with respect to Landlord or Tenant, the agents, employees, contractors, and invitees of such party; and (ii) in addition with respect to Tenant, Tenant's subtenants and their respective agents, employees, contractors, and invitees.

1.5 Agreed Interest Rate: The term "Agreed Interest Rate" shall mean that interest rate determined as of the time it is to be applied that is equal to the lesser of (i) 4% in excess of the discount rate established by the Federal Reserve Bank of San Francisco as it may be adjusted from time to time, or (ii) the maximum interest rate permitted by Law.

1.6 Base Monthly Rent: The term "Base Monthly Rent" shall mean the fixed monthly rent payable by Tenant pursuant to paragraph 3.1 which is specified in Section K of the Summary.

1.7 Building: The term "Building" shall mean the building in which the Premises are located which Building is identified in Section F of the Summary, the gross leasable area of which is referred to herein as the "Building Gross Leasable Area."

1.8 Commencement Date: The term "Commencement Date" is the date the Lease Term commences, which term is defined in paragraph 2.2.

1.9 Common Area: The term "Common Area" shall mean all areas and facilities within the Project that are not designated by Landlord for the exclusive use of Tenant or any other lessee or other occupant of the Project, including the parking areas, access and perimeter roads, pedestrian sidewalks, landscaped areas, trash enclosures, recreation areas and the like.

1.10 Common Operating Expenses: The term "Common Operating Expenses" is defined in paragraph 8.2.

1.11 Effective Date: The term "Effective Date" shall mean the date the last signatory to this Lease whose execution is required to make it binding on the parties hereto shall have executed this Lease.

1.12 Event of Tenant's Default: The term "Event of Tenant's Default" is defined in paragraph 13.1.

1.13 Hazardous Materials: The terms "Hazardous Materials" and "Hazardous Materials Laws" are defined in paragraph 7.2E.

1.14 Insured and Uninsured Peril: The terms "Insured Peril" and "Uninsured Peril" are defined in paragraph 11.2E.

1.15 Law: The term "Law" shall mean any judicial decision, statute, constitution, ordinance, resolution, regulation, rule, administrative order, or other requirement of any municipal, county, state, federal or other government agency or authority having jurisdiction over the parties to this Lease or the Premises, or both, in effect either at the Effective Date or any time during the Lease Term, including, without limitation, any Hazardous Material Law (as defined in paragraph 7.2E) and the Americans with Disabilities Act, 42 U.S.C. Sections 12101 et. seq. and any rules, regulations, restrictions, guidelines, requirements or publications promulgated or published pursuant thereto.

1.16 Lease: The term "Lease" shall mean the Summary and all elements of this Lease identified in Section T of the Summary, all of which are attached hereto and incorporated herein by this reference.

1.17 Lease Term: The term "Lease Term" shall mean the term of this Lease which shall commence on the Commencement Date and continue for the period specified in Section J of the Summary.

1.18 Lender: The term "Lender" shall mean any beneficiary, mortgagee, secured party, lessor, or other holder of any Security Instrument.

1.19 Permitted Use: The term "Permitted Use" shall mean the use specified in Section N of the Summary.

1.20 Premises: The term "Premises" shall mean that building area described in Section D of the Summary that is within the Building.

1.21 Project: The term "Project" shall mean that real property and the improvements thereon which are specified in Section E of the Summary, the aggregate gross leasable area of which is referred to herein as the "Project Gross Leasable Area."

1.22 Private Restrictions: The term "Private Restrictions" shall mean all recorded covenants, conditions and restrictions, private agreements, reciprocal easement agreements, and any other recorded instruments affecting the

use of the Premises which (i) exist as of the Effective Date, or (ii) are recorded after the Effective Date and are approved by Tenant.

1.23 Real Property Taxes: The term "Real Property Taxes" is defined in paragraph 8.3.

1.24 Scheduled Commencement Date: The term "Scheduled Commencement Date" shall mean the date specified in Section I of the Summary.

1.25 Security Instrument: The term "Security Instrument" shall mean any underlying lease, mortgage or deed of trust which now or hereafter affects the Project, and any renewal, modification, consolidation, replacement or extension thereof.

1.26 Summary: The term "Summary" shall mean the Summary of Basic Lease Terms executed by Landlord and Tenant that is part of this Lease.

1.27 Tenant's Alterations: The term "Tenant's Alterations" shall mean all improvements, additions, alterations, and fixtures installed in the Premises by Tenant at its expense which are not Trade Fixtures.

1.28 Tenant's Share: The term "Tenant's Share" shall mean the percentage obtained by dividing Tenant's Gross Leasable Area by the Building Gross Leasable Area, which as of the Effective Date is the percentage identified in Section G of the Summary.

1.29 Trade Fixtures: The term "Trade Fixtures" shall mean (i) Tenant's inventory, furniture, signs, and business equipment, and (ii) anything affixed to the Premises by Tenant at its expense for purposes of trade, manufacture, ornament or domestic use (except replacement of similar work or material originally installed by Landlord) which can be removed without material injury to the Premises unless such thing has, by the manner in which it is affixed, become an integral part of the Premises.

ARTICLE 2 DEMISE, CONSTRUCTION, AND ACCEPTANCE

2.1 Demise of Premises: Landlord hereby leases to Tenant, and Tenant leases from Landlord, for the Lease Term upon the terms and conditions of this Lease, the Premises for Tenant's own use in the conduct of Tenant's business together with (i) the non-exclusive right to use the number of Tenant's Allocated Parking Stalls within the Common Area (subject to the limitations set forth in paragraph 4.5), and (ii) the non-exclusive right to use the Common Area for ingress to and egress from the Premises. Landlord reserves the use of the exterior walls, the roof and the area beneath and above the Premises, together with the right to install, maintain, use, and replace ducts, wires, conduits and pipes leading through the Premises in locations which will not materially interfere with Tenant's use of the Premises.

2.2 Commencement Date: The Scheduled Commencement Date shall be only an estimate of the actual Commencement Date, and the Term of this Lease shall begin on the first to occur of the following, which shall be the "Commencement Date": (i) the date Landlord delivers possession of the Premises to Tenant following "Substantial Completion" of the "Tenant Improvements" (as such terms are defined in Exhibit B attached hereto); or (ii) the date Tenant enters into occupancy of the Premises for the purpose of conducting its business therein. To the extent the Commencement Date is delayed due to "Tenant Delays" (as defined in Exhibit B attached hereto), then the Commencement Date shall be deemed the date the Commencement Date would have occurred but for any Tenant Delay,

2.3 Construction of Improvements: Prior to the Commencement Date, Landlord shall construct the Tenant Improvements (as defined in Exhibit B attached hereto) in accordance with the terms of Exhibit B.

2.4 Delivery and Acceptance of Possession: If Landlord is unable to deliver possession of the Premises to Tenant on or before the Scheduled Commencement Date for any reason whatsoever, this Lease shall not be void or voidable for a period of 180 days thereafter, and Landlord shall not be liable to Tenant for any loss or damage resulting therefrom, but the Free Rent Period shall not commence until the Commencement Date and Tenant shall not be obligated to pay Tenant's Share of Common Operating Expenses until the Commencement Date. Tenant shall accept possession by the Commencement Date and shall enter into good faith occupancy of the

entire Premises and commence the operation of its business therein within 30 days after the Commencement Date. Tenant acknowledges that it has had an opportunity to conduct, and has conducted, such inspections of the Premises as it deems necessary to evaluate its condition. Except as otherwise specifically provided herein and in Exhibit B, Tenant agrees to accept possession of the Premises in its then existing condition, "as-is", including all patent and latent defects. Subject to the provisions of Exhibit B, Tenant's taking possession of any part of the Premises shall be deemed to be an acceptance by Tenant of any work of improvement done by Landlord in such part as complete and in accordance with the terms of this Lease except for latent defects of which Tenant has given Landlord written notice within the earlier of thirty (30) days after the discovery thereof by Tenant or one (1) year after the Commencement Date. At the time Landlord delivers possession of the Premises to Tenant, Landlord and Tenant shall together execute an acceptance agreement in the form attached as Exhibit C, appropriately completed. Tenant's failure to execute the acceptance agreement shall not affect Tenant's obligation to pay Base Monthly Rent and Additional Rent, which obligations shall not be excused or delayed because of Tenant's failure to execute such acceptance agreement; but Tenant shall have the right to object to any of Landlord's determinations set forth therein within thirty (30) days after delivery of possession to Tenant, except for latent defects for which notice must be given within the time period specified above. Notwithstanding anything to the contrary contained in this Lease, on the Commencement Date, the heating, ventilating and air conditioning ("HVAC") system, and the electrical, plumbing, sewer, and if applicable any life safety and security systems (collectively, "Building Systems") serving the Premises shall be in good working order and repair, and the Premises shall be in compliance with all applicable law. If, during the first thirty (30) days of the Term, any Building System is not in the condition required by the foregoing sentence, Tenant shall notify Landlord of the need for repair, and the repair shall be completed at no cost to Tenant.

2.5 Early Occupancy: Tenant shall have the right, for at least seven (7) days prior to Substantial Completion of the Tenant Improvements, as reasonably determined by Landlord and with notice thereof to Tenant in writing, without any obligation to pay Base Monthly Rent or Tenant's Share of Common Operating Expenses, but otherwise in compliance with the provisions of this Lease, to enter the Premises for the purpose of installing its equipment, data, telecommunications and cabling systems, furniture and trade fixtures; provided Tenant does not unreasonably interfere with the construction of the Tenant Improvements or present a hazardous or dangerous condition due to work being constructed. Such early shall be at Tenant's own risk.

ARTICLE 3 RENT

3.1 Base Monthly Rent: Commencing on the Commencement Date, but subject to the Free Rent Period (as defined in Section K of the Summary), and continuing throughout the Lease Term, Tenant shall pay to Landlord the Base Monthly Rent set forth in Section K of the Summary.

3.2 Additional Rent: Commencing on the Commencement Date and continuing throughout the Lease Term, Tenant shall pay the following as additional rent (the "Additional Rent"): (i) any late charges or interest due Landlord pursuant to paragraph 3.4; (ii) Tenant's Share of Common Operating Expenses as provided in paragraph 8.1; (iii) Landlord's share of any Subrent received by Tenant upon certain assignments and sublettings as required by paragraph 14.1; (iv) any legal fees and costs due Landlord pursuant to paragraph 15.9; and (v) any other charges due Landlord pursuant to this Lease.

3.3 Payment of Rent: On the Effective Date, Tenant shall pay to Landlord the amount set forth in Section L of the Summary as prepayment of Base Monthly Rent for credit against the first installment(s) of Base Monthly Rent after the expiration of the Free Rent Period. All rent required to be paid in monthly installments shall be paid in advance on the first day of each calendar month during the Lease Term. If Section K of the Summary provides that the Base Monthly Rent is to be increased during the Lease Term and if the date of such increase does not fall on the first day of a calendar month, such increase shall become effective on the first day of the next calendar month. All rent shall be paid in lawful money of the United States, without any abatement, deduction or offset whatsoever (except as specifically provided in paragraph 11.4 and paragraph 12.3), and without any prior demand therefor. Rent shall be paid to Landlord at its address set forth in Section Q of the Summary, or at such other place as Landlord may designate from time to time. Tenant's obligation to pay Base Monthly Rent and Tenant's Share of Common Operating Expenses shall be prorated at the commencement and expiration of the Lease Term.

3.4 Late Charge, Interest and Quarterly Payments:

(a) Late Charge. Tenant acknowledges that the late payment by Tenant of any installment of rent, or any other sum of money required to be paid by Tenant under this Lease, will cause Landlord to incur certain costs and expenses not contemplated under this Lease, the exact amount of such costs being extremely difficult and impractical to fix. Such costs and expenses will include, without limitation, attorneys' fees, administrative and collection costs, and processing and accounting expenses and other costs and expenses necessary and incidental thereto. If any Base Monthly Rent or Additional Rent is not received by Landlord from Tenant when due such payment is due, then Tenant shall immediately pay to Landlord a late charge equal to 5% of such delinquent rent as liquidated damages for Tenant's failure to make timely payment; provided, however that for the first two times in any calendar year that Tenant has failed to make any such payment when due, Tenant shall not be obligated to pay the late charge unless it fails to make such payment within 5 days after written notice from Landlord.. In no event shall this provision for a late charge be deemed to grant to Tenant a grace period or extension of time within which to pay any rent or prevent Landlord from exercising any right or remedy available to Landlord upon Tenant's failure to pay any rent due under this Lease in a timely fashion, including any right to terminate this Lease pursuant to paragraph 13.2B.

(b) Interest. If any rent remains delinquent for a period in excess of five (5) days after receipt of written notice that such sum is due, then, in addition to such late charge, Tenant shall pay to Landlord interest on any rent that is not paid when due at the Agreed Interest Rate following the date such amount became due until paid.

(c) Quarterly Payments. If Tenant during any calendar year period shall be more than five (5) days delinquent in the payment of any rent or other amount payable by Tenant hereunder on three (3) or more occasions, then, notwithstanding anything herein to the contrary, Landlord may, by written notice to Tenant, elect to require Tenant to pay all Base Monthly Rent and Additional Rent quarterly in advance. Such right shall be in addition to and not in lieu of any other right or remedy available to Landlord hereunder or at law on account of Tenant's default hereunder

3.5 Security Deposit: On the Effective Date, Tenant shall deposit with Landlord the amount set forth in Section M of the Summary as security for the performance by Tenant of its obligations under this Lease, and not as prepayment of rent (the "Security Deposit"). Landlord may from time to time apply such portion of the Security Deposit as is reasonably necessary for the following purposes: (i) to remedy any default by Tenant in the payment of rent; (ii) to repair damage to the Premises caused by Tenant; (iii) to clean the Premises upon termination of the Lease; and (iv) to remedy any other default of Tenant to the extent permitted by Law and, in this regard, Tenant hereby waives any restriction on the uses to which the Security Deposit may be put contained in California Civil Code Section 1950.7. In the event the Security Deposit or any portion thereof is so used, Tenant agrees to pay to Landlord within five (5) days after receipt of demand an amount in cash sufficient to restore the Security Deposit to the full original amount. Landlord shall not be deemed a trustee of the Security Deposit, may use the Security Deposit in business, and shall not be required to segregate it from its general accounts. Tenant shall not be entitled to any interest on the Security Deposit. If Landlord transfers the Premises during the Lease Term, Landlord shall pay the Security Deposit not previously applied to any obligation of Tenant as provided above to any transferee of Landlord's interest in conformity with the provisions of California Civil Code Section 1950.7 and/or any successor statute, in the event of which payment, the transferring Landlord will be released from all liability for the return of the Security Deposit.

3.6 Electronic Payment. Landlord shall have the right, on not less than thirty (30) days prior written notice to Tenant (the "Electronic Payment Notice"), to require Tenant to make subsequent payments of Monthly Base Rent and Additional Rent due pursuant to the terms of this Lease by means of a federal funds wire transfer or such other method of electronic funds transfer as may be required by Landlord in its sole and absolute discretion (the "Electronic Payment"). The Electronic Payment Notice shall set forth the proper bank ABA number, account number and designation of the account to which such Electronic

Payment shall be made. Tenant shall promptly notify Landlord in writing of any additional information that will be required to establish and maintain Electronic Payment from Tenant's bank or financial institution. Not more than once each year, Landlord shall have the right, after at least ten (10) days prior written notice to Tenant, to change the name of the depository for receipt of any Electronic Payment and to discontinue payment of any sum by Electronic Payment.

ARTICLE 4 USE OF PREMISES

4.1 Limitation on Use: Tenant shall use the Premises solely for the Permitted Use specified in Section N of the Summary, and shall not change such use without the prior written consent of Landlord which will not be unreasonably withheld or delayed. Tenant shall not do anything in or about the Premises which will (i) cause structural injury to the Building, or (ii) cause damage to any part of the Building except to the extent reasonably necessary for the installation of Tenant's Trade Fixtures and Tenant's Alterations, and then only in a manner which has been first approved by Landlord in writing, which shall not be unreasonably withheld or delayed, unless such work will affect the structural portion of the Premises or Building or the Common Areas. Tenant shall not operate any equipment within the Premises which will (i) materially damage the Building or the Common Area, (ii) overload existing electrical systems or other mechanical equipment servicing the Building, (iii) impair the efficient operation of the sprinkler system or the heating, ventilating or air conditioning ("HVAC") equipment within or servicing the Building, or (iv) damage, overload or corrode the sanitary sewer system. Tenant shall not attach, hang or suspend anything from the ceiling, roof, walls or columns of the Building or set any load on the floor in excess of the load limits for which such items are designed nor operate hard wheel forklifts within the Premises. Any dust, fumes, or waste products generated by Tenant's use of the Premises shall be contained and disposed so that they do not (i) create an unreasonable fire or health hazard, (ii) damage the Premises, or (iii) result in the violation of any Law. Except as reasonably approved by Landlord, Tenant shall not change the exterior of the Building or install any equipment or antennas on or make any penetrations of the exterior or roof of the Building. Tenant shall not commit any waste in or about the Premises, and Tenant shall keep the Premises in a neat, clean, attractive and orderly condition, free of any nuisances. If Landlord designates a standard window covering for use throughout the Building, Tenant shall use this standard window covering to cover all windows in the Premises. Tenant shall not conduct on any portion of the Premises or the Project any sale of any kind, including any public or private auction, fire sale, going-out-of-business sale, distress sale or other liquidation sale.

4.2 Compliance with Regulations: Tenant shall not use the Premises in any manner which violates any Laws or Private Restrictions which affect the Premises. Subject to the provision so Section 5.4 below, Tenant shall abide by and promptly observe and comply with all Laws and Private Restrictions; provided, however, that Tenant shall not be obligated to make capital improvements to the structural portions of the Premises (which for purposes hereof shall mean the roof structure, foundation, floor slab, and load bearing walls) in connection therewith, unless such work is required due to (i) any Tenant's Alteration, (ii) any particular use of the Premises

by Tenant or the manner in which it conducts its business therein, or (iii) any change in use by Tenant (any such activity under clauses (i), (ii) or (iii) shall be referred to herein as a "Tenant Activity"). Any capital improvement to the structural portion of Premises to comply with any Law or Private Restriction that is not due to any Tenant Activity shall be completed by Landlord and Tenant shall pay for the amortize cost thereof under section 5.4 hereof. Tenant shall not use the Premises in any manner which will cause a cancellation of any insurance policy covering Tenant's Alternations or any improvements installed by Landlord at its expense or which poses an unreasonable risk of damage or injury to the Premises. Tenant shall not sell, or permit to be kept, used, or sold in or about the Premises any article which may be prohibited by the standard form of fire insurance policy. Tenant shall comply with all reasonable requirements of any insurance company, insurance underwriter, or Board of Fire Underwriters which are necessary to maintain the insurance coverage carried by either Landlord or Tenant pursuant to this Lease.

4.3 Outside Areas: No materials, supplies, tanks or containers, equipment, finished products or semi-finished products, raw materials,

inoperable vehicles or articles of any nature shall be stored upon or permitted to remain outside of the Premises except in fully fenced and screened areas outside the Building which have been designed for such purpose and have been approved in writing by Landlord for such use by Tenant.

4.4 Signs: Tenant shall not place on any portion of the Premises any sign, placard, lettering in or on windows, banner, displays or other advertising or communicative material which is visible from the exterior of the Building without the prior written approval of Landlord, which shall not be unreasonably withheld or delayed. All such approved signs shall strictly conform to all Laws, Private Restrictions, and Landlord's sign criteria then in effect, and shall be installed at the expense of Tenant. Tenant shall maintain such signs in good condition and repair

4.5 Parking: Tenant is allocated and shall have the non-exclusive right to use not more than the number of Tenant's Allocated Parking Stalls contained within the Project described in Section H of the Summary for its use and the use of Tenant's Agents, the location of which may be designated from time to time by Landlord, but Landlord agrees not unreasonably designate areas for Tenant's parking in a discriminatory manner. Tenant shall not at any time use more parking spaces than the number so allocated to Tenant or park its vehicles or the vehicles of others in any portion of the Project not designated by Landlord as a non-exclusive parking area. Tenant shall not have the exclusive right to use any specific parking space. If Landlord grants to any other tenant the exclusive right to use any particular parking space(s), Tenant shall not use such spaces; provided, however, that so long as no Event of Tenant's Default exits and Tenant is in occupancy of the Premises, Landlord agrees to use its good faith efforts not to unreasonably allocate or designate reserved parking spaces in the row spaces immediately adjacent to the front of the Premises, except as may be necessary to comply with applicable Law or to the extent designated for Tenant or Tenant's visitors. Landlord reserves the right, after having given Tenant reasonable notice, to have any vehicles owned by Tenant or Tenant's Agents utilizing parking spaces in excess of the parking spaces allowed for Tenant's use to be towed away at Tenant's cost. All trucks and delivery vehicles shall be (i) parked at the rear of the Building, (ii) loaded and unloaded in a manner which does not unreasonably interfere with the businesses of other occupants of the Project, and (iii) permitted to remain on the Project only so long as is reasonably necessary to complete loading and unloading. In the event Landlord elects or is required by any Law to limit or control parking in the Project, whether by validation of parking tickets or any other method of assessment, Tenant agrees to participate in such validation or assessment program under such reasonable rules and regulations as are from time to time established by Landlord, at no cost to Tenant.

Landlord agrees to designate ten (10) parking spaces in an area in front of the Building selected by Landlord for use by Tenant's visitors, provided that (i) Tenant is in occupancy of the Premises and no Event of Tenant's Default exists, (ii) Landlord reserves the right to relocate and re-designate such spaces to another area adjacent to the Premises, and (iii) Landlord reserves the right upon not less than 30 days prior written notice to Landlord to discontinue all or any number of such designated parking spaces if Landlord determines in its good faith discretion that other tenants in the Project or prospective tenants for the Project are requesting designated parking in the Project. The foregoing rights to designated parking for Tenant are applicable to Synaptics, Inc. and its transferee under a Permitted Transfer (as defined in Section 14.1F of this Lease), but may not be assigned, used or relied upon by any assignee, sublessee or transferee under a Transfer. Tenant acknowledges and agrees that Landlord shall not be obligated or responsible to monitor the use of such designated parking space by others.

4.6 Rules and Regulations: Landlord may from time to time promulgate reasonable and nondiscriminatory rules and regulations applicable to all occupants of the Project for the care and orderly management of the Project and the safety of its tenants and invitees. Such rules and regulations shall be binding upon Tenant upon delivery of a copy thereof to Tenant, and Tenant agrees to abide by such rules and regulations, so long as the rules and regulations do not materially increase Tenant's obligations or materially diminish Tenant's rights under this Lease, or materially interfere with Tenant's parking rights.. If there is a conflict between the rules and regulations and any of the provisions of this Lease, the provisions of this Lease shall prevail. Landlord shall not be responsible for the violation by any other tenant of the Project of any such rules and regulations.

ARTICLE 5 TRADE FIXTURES AND ALTERATIONS

5.1 Trade Fixtures: Throughout the Lease Term, Tenant may provide and install, and shall maintain in good condition, any Trade Fixtures required in the conduct of its business in the Premises. All Trade Fixtures shall remain Tenant's property.

5.2 Tenant's Alterations: Construction by Tenant of Tenant's Alterations shall be governed by the following:

A. Tenant shall not construct any Tenant's Alterations or otherwise alter the Premises without Landlord's prior written approval, which shall not be unreasonably withheld unless such work affects the structural portion of the Premises or the Building. Tenant shall be entitled, without Landlord's prior approval, to make Tenant's Alterations (i) which do not affect the structural or exterior parts or water tight character of the Building, and (ii) the reasonably estimated cost of which, plus the original cost of any part of the Premises removed or materially altered in connection with such Tenant's Alterations, together do not exceed the Permitted Tenant Alterations Limit specified in Section O of the Summary per work of improvement. In the event Landlord's approval for any Tenant's Alterations is required, Tenant shall not construct the Leasehold Improvement until Landlord has approved in writing the plans and specifications therefor, and such Tenant's Alterations shall be constructed substantially in compliance with such approved plans and specifications by a licensed contractor first reasonably approved by Landlord. All Tenant's Alterations constructed by Tenant shall be constructed by a licensed contractor in accordance with all Laws using new materials of good quality.

B. Tenant shall not commence construction of any Tenant's Alterations until (i) all required governmental approvals and permits have been obtained, (ii) all requirements regarding insurance imposed by this Lease have been satisfied, (iii) Tenant has given Landlord at least five days' prior written notice of its intention to commence such construction, and (iv) if reasonably requested by Landlord, Tenant has obtained contingent liability and broad form builders' risk insurance in an amount reasonably satisfactory to Landlord if there are any perils relating to the proposed construction not covered by insurance carried pursuant to Article 9.

C. All Tenant's Alterations shall remain the property of Tenant during the Lease Term but shall not be altered or removed from the Premises. At the expiration or sooner termination of the Lease Term, all Tenant's Alterations shall be surrendered to Landlord as part of the realty and shall then become Landlord's property, and Landlord shall have no obligation to reimburse Tenant for all or any portion of the value or cost thereof; provided, however, that if Landlord requires Tenant to remove any Tenant's Alterations, Tenant shall so remove such Tenant's Alterations not later than the expiration or sooner termination of the Lease Term. Notwithstanding the foregoing, Tenant shall not be obligated to remove any Tenant's Alterations with respect to which the following is true: (i) Tenant was required, or elected, to obtain the approval of Landlord to the installation of the Leasehold Improvement in question; (ii) at the time Tenant requested Landlord's approval, Tenant requested of Landlord in writing that Landlord inform Tenant of whether or not Landlord would require Tenant to remove such Leasehold Improvement at the expiration of the Lease Term; and (iii) at the time Landlord granted its approval, it did not inform Tenant that it would require Tenant to remove such Leasehold Improvement at the expiration of the Lease Term.

5.3 Alterations Required by Law: Tenant shall make any alteration, addition or change of any sort to the Premises that is required by any Law because of (i) Tenant's particular use or change of use of the Premises; (ii) Tenant's application for any permit or governmental approval; or (iii) Tenant's construction or installation of any Tenant's Alterations or Trade Fixtures. Any other alteration, addition, or change required by Law which is not the responsibility of Tenant pursuant to the foregoing shall be made by Landlord (subject to Landlord's right to reimbursement from Tenant specified in paragraph 5.4).

5.4 Amortization of Certain Capital Improvements: Tenant shall pay Additional Rent in the event Landlord reasonably elects or is required to make any of the following kinds of capital improvements to the Project: (i) capital improvements required to be constructed in order to comply with any Law (excluding any Hazardous Materials Law which Tenant shall not be responsible for

unless caused by Tenant or any of Tenant's Agents) not in effect or applicable to the Project as of the Effective Date; (ii) modification of existing or construction of additional capital improvements or building service equipment for the purpose of reducing the consumption of utility services or Common Operating Expenses of the Project; (iii) replacement of capital improvements or building service equipment existing as of the Effective Date when required because of normal wear and tear, and (iv) restoration of any part of the Project that has been damaged by any peril to the extent the cost thereof is not covered by insurance proceeds actually recovered by Landlord up to a maximum amount per occurrence of 10% of the then replacement cost of the Project. The amount of Additional Rent Tenant is to pay with respect to each such capital improvement shall be determined as follows:

A. All costs paid by Landlord to construct such improvements (including financing costs) shall be amortized over the useful life of such improvement (as reasonably determined by Landlord in accordance with generally accepted accounting principles) with interest on the unamortized balance at the then prevailing market rate Landlord would pay if it borrowed funds to construct such improvements from an institutional lender, and Landlord shall inform Tenant of the monthly amortization payment required to so amortize such costs, and shall also provide Tenant with the information upon which such determination is made.

B. As Additional Rent, Tenant shall pay at the same time the Base Monthly Rent is due an amount equal to Tenant's Share of that portion of such monthly amortization payment fairly allocable to the Building (as reasonably determined by Landlord) for each month after such improvements are completed until the first to occur of (i) the expiration of the Lease Term (as it may be extended), or (ii) the end of the term over which such costs were amortized.

5.5 Mechanic's Liens: Tenant shall keep the Project free from any liens and shall pay when due all bills arising out of any work performed, materials furnished, or obligations incurred by Tenant or Tenant's Agents

relating to the Project. If any claim of lien is recorded (except those caused by Landlord or Landlord's Agents), Tenant shall bond against or discharge the same within ten (10) business days after the date Tenant has received notice that the same has been recorded against the Project. Should any lien be filed against the Project or any action be commenced affecting title to the Project, the party receiving notice of such lien or action shall immediately give the other party written notice thereof.

5.6 Taxes on Tenant's Property: Tenant shall pay before delinquency any and all taxes, assessments, license fees and public charges levied, assessed or imposed against Tenant or Tenant's estate in this Lease or the property of Tenant situated within the Premises which become due during the Lease Tenn. If any tax or other charge is assessed by any governmental agency because of the execution of this Lease, such tax shall be paid by Tenant. Within thirty (30) days after receipt of demand from Landlord, Tenant shall furnish Landlord with satisfactory evidence of these payments.

ARTICLE 6 REPAIR AND MAINTENANCE

6.1 Tenant's Obligation to Maintain: Except as otherwise provided in paragraph 6.2, paragraph 11.1, and paragraph 12.3, Tenant shall be responsible for the following during the Lease Term:

A. Tenant shall clean and maintain in good order, condition, and repair and replace when necessary the Premises and every part thereof, through regular inspections and servicing, including, but not limited to: (i) all plumbing and sewage facilities (including all sinks, toilets, faucets and drains), and all ducts, pipes, vents or other parts of the HVAC or plumbing system serving only the Premises; (ii) all fixtures, interior walls, floors, carpets and ceilings; (iii) all windows, doors, entrances, plate glass, showcases and skylights (including cleaning both interior and exterior surfaces); (iv) all electrical facilities and all equipment (including all lighting fixtures, lamps, bulbs, tubes, fans, vents, exhaust equipment and systems) serving only the Premises; and (v) any automatic fire extinguisher equipment in the Premises.

B. With respect to utility facilities serving the Premises (including electrical wiring and conduits, gas lines, water pipes, and plumbing and sewage fixtures and pipes), Tenant shall be responsible for the maintenance and repair of any such facilities which serve only the Premises, including all such facilities that are within the walls or floor, or on the roof of the Premises, and any part of such facility that is not within the Premises, but only up to the point where such facilities join a main or other junction (e.g., sewer main or electrical transformer) from which such utility services are distributed to other parts of the Project as well as to the Premises. Tenant shall replace any damaged or broken glass in the Premises (including all interior and exterior doors and windows) with glass of the same kind, size and quality. Tenant shall repair any damage to the Premises (including exterior doors and windows) caused by vandalism or any unauthorized entry.

C. Tenant shall (i) maintain, repair and replace when necessary all HVAC equipment which services only the Premises, and shall keep the same in good condition through regular inspection and servicing, and (ii) maintain continuously throughout the Lease Term a service contract for the maintenance of all such HVAC equipment with a licensed HVAC repair and maintenance contractor approved by Landlord, which contract provides for the periodic inspection and servicing of the HVAC equipment at least once every 60 days during the Lease Term. Notwithstanding the foregoing, Landlord may elect at any time to assume responsibility for the maintenance, repair and replacement of such HVAC equipment which serves only the Premises. Tenant shall maintain continuously throughout the Lease Term a service contract for the washing of all windows (both interior and exterior surfaces) in the Premises with a contractor approved by Landlord, which contract provides for the periodic washing of all such windows at least once every 60 days during the Lease Term. Tenant shall furnish Landlord with copies of all such service contracts, which shall provide that they may not be canceled or changed without at least 30 days' prior written notice to Landlord.

D. All repairs and replacements required of Tenant shall be promptly made with new materials of like kind and quality. If thc work affects thc structural parts of the Building or if thc estimated cost of any item of repair or replacement is in excess of the Permitted Tenant's Alterations Limit, then Tenant shall first obtain Landlord's written approval of the scope of the work, plans therefor, materials to be used, and the contractor, which approval shall not be unreasonably withheld or delayed.

E. Tenant's obligation to repair shall not include any obligation, and Tenant shall have no obligation to construct or pay the cost of removing or remediating presence of hazardous materials, unless the same were stored, used or disposed of by Tenant or any of Tenant's Agents.

F. Notwithstanding anything to the contrary in Section 6.1A and Section 6.1C, Landlord agrees to perform the work for the replacement of the HVAC unit(s) servicing the Premises as and when determined by Landlord in good faith where such work is not due to any negligence or willful misconduct of Tenant or any of Tenant's Agents or due to any Tenant's Alteration. However, Tenant shall pay to Landlord the amortized portion of the cost for any such work in accordance with Sections 5.4A and B of this Lease.

6.2 Landlord's Obligation to Maintain: Landlord shall repair, maintain, repair and operate the Common Area and repair, maintain and replace the roof, load bearing walls, exterior and structural parts (including the floor slabs but not floor coverings) of the building(s) located on the Project (including the Building) so that the same are kept in good order and repair. If there is central HVAC or other building service equipment and/or utility facilities serving portions of the Common Area and/or both the Premises and other parts of the Building, Landlord shall maintain and operate (and replace when necessary) such equipment. Landlord shall not

be responsible for repairs required by an accident, fire or other peril or for damage caused to any part of the Project by any act or omission of Tenant or Tenant's Agents except as otherwise required by Article 11. Landlord may engage contractors of its choice to perform the obligations required of it by this Article, and the necessity of any expenditure to perform such obligations shall be at the sole discretion of Landlord.

6.3 Control of Common Area: Landlord shall at all times have exclusive

control of the Common Area. Landlord shall have the right, without the same constituting an actual or constructive eviction and without entitling Tenant to any abatement of rent, to: (i) close any part of the Common Area to whatever extent required in the reasonable opinion of Landlord's counsel to prevent a dedication thereof or the accrual of any prescriptive rights therein; (ii) temporarily close the Common Area to perform maintenance or for any other reasonable reason deemed sufficient by Landlord; (iii) change the shape, size, location and extent of the Common Area; (iv) eliminate from or add to the Project any land or improvement, including multi-deck parking structures; (v) make changes to the Common Area including, without limitation, changes in the location of driveways, entrances, passageways, doors and doorways, elevators, stairs, restrooms, exits, parking spaces, parking areas, sidewalks or the direction of the flow of traffic and the site of the Common Area; (vi) remove unauthorized persons from the Project; and/or (vii) change the name or address of the Building or Project. Tenant shall keep the Common Area clear of all obstructions created or permitted by Tenant. If in the reasonable opinion of Landlord unauthorized persons are using any of the Common Area by reason of the presence of Tenant in the Building, Tenant, upon demand of Landlord, shall restrain such unauthorized use by appropriate proceedings. In exercising any such rights regarding the Common Area, (i) Landlord shall make a reasonable effort to minimize any disruption to Tenant's business, and (ii) Landlord shall not exercise its rights to control the Common Area in a manner that would materially interfere with Tenant's use of the Premises without first obtaining Tenant's consent. Landlord shall have no obligation to provide guard services or other security measures for the benefit of the Project. Notwithstanding anything to the contrary contained in the foregoing, Landlord's exercise of such rights shall not materially increase Tenant's obligations or materially diminish Tenant's rights under this Lease, or materially interfere with Tenant's parking rights. Tenant assumes all responsibility for the protection of Tenant and Tenant's Agents from acts of third parties; provided, however, that nothing contained herein shall prevent Landlord, at its sole option, from providing security measures for the Project.

ARTICLE 7 WASTE DISPOSAL AND UTILITIES

7.1 Waste Disposal: Tenant shall store its waste either inside the Premises or within outside trash enclosures that are fully fenced and screened in compliance with all Private Restrictions, and designed for such purpose. All entrances to such outside trash enclosures shall be kept closed, and waste shall be stored in such manner as not to be visible from the exterior of such outside enclosures. Tenant shall cause all of its waste to be regularly removed from the Premises at Tenant's sole cost. Tenant shall keep all fire corridors and mechanical equipment rooms in the Premises free and clear of all obstructions at all times.

7.2 Hazardous Materials: Landlord and Tenant agree as follows with respect to the existence or use of Hazardous Materials on the Project:

A. Any handling, transportation, storage, treatment, disposal or use of Hazardous Materials by Tenant and Tenant's Agents after the earlier of the Commencement Date or the date Tenant is provided early access as provided in Section 2.5 hereof in or about the Project shall strictly comply with all applicable Hazardous Materials Laws. Tenant shall indemnify, defend upon demand with counsel reasonably acceptable to Landlord, and hold harmless Landlord from and against any liabilities, losses, claims, damages, lost profits, consequential damages, interest, penalties, fines, monetary sanctions, attorneys' fees, experts' fees, court costs, remediation costs, investigation costs, and other expenses which result from or arise in any manner whatsoever out of the use, storage, treatment, transportation, release, or disposal of Hazardous Materials on or about the Project by Tenant or Tenant's Agents after the earlier of the Commencement Date or the date Tenant is provided early access as provided in Section 2.5 hereof.

B. If the presence of Hazardous Materials on the Project caused or permitted by Tenant or Tenant's Agents after the earlier of the Commencement Date or the date Tenant is provided early access as provided in Section 2.5 hereof results in contamination or deterioration of water or soil resulting in a level of contamination greater than the levels established as acceptable by any governmental agency having jurisdiction over such contamination, then Tenant shall promptly take any and all action necessary to investigate and remediate such contamination if required by Law or as a condition to the issuance or continuing effectiveness of any governmental approval which relates to the use of the Project or any part thereof. Tenant shall further be solely responsible for, and shall defend, indemnify and hold Landlord and its agents harmless from and against, all claims, costs and

liabilities, including reasonable attorneys' fees and costs, arising out of or in connection with any investigation and remediation required hereunder to return the Project to its condition existing prior to the appearance of such Hazardous Materials used, stored, treated, transported, released or disposed by Tenant or Tenant's Agents.

C. Landlord and Tenant shall each give written notice to the other as soon as reasonably practicable of (i) any communication received from any governmental authority concerning Hazardous Materials which relates to the Project, and (ii) any contamination of the Project by Hazardous Materials which constitutes a violation of any Hazardous Materials Law. Tenant may use small quantities of household chemicals such as adhesives, lubricants, and cleaning fluids in order to conduct its business at the Premises and such other Hazardous Materials as are necessary for the operation of Tenant's business of which Landlord receives notice prior to such Hazardous Materials being brought onto the Premises and which Landlord consents in writing may

be brought onto the Premises. At any time during the Lease Term, Tenant shall, within five days after receipt of written request therefor received from Landlord, disclose in writing all Hazardous Materials that are being used by Tenant on the Project, the nature of such use, and the manner of storage and disposal.

D. Landlord may cause testing wells to be installed on the Project, and may cause the ground water to be tested to detect the presence of Hazardous Material by the use of such tests as are then customarily used for such purposes. If Tenant so requests, Landlord shall supply Tenant with copies of such test results. The cost of such tests and of the installation, maintenance, repair and replacement of such wells shall be paid by Tenant if such tests disclose the existence of facts which give rise to liability of Tenant pursuant to its indemnity given in paragraph 7.2A and/or paragraph 7.2B.

E. As used herein, the term "Hazardous Material," means any hazardous or toxic substance, material or waste which is or becomes regulated by any local governmental authority, the State of California or the United States Government. The term "Hazardous Material," includes, without limitation, petroleum products, asbestos, PCB's, and any material or substance which is (i) listed under Article 9 or defined as hazardous or extremely hazardous pursuant to Article 11 of Title 22 of the California Administrative Code, Division 4, Chapter 20, (ii) defined as a "hazardous waste" pursuant to Section 1004 of the Federal Resource Conservation and Recovery Act, 42 U.S.C. 6901 et seq. (42 U.S.C. 6903), or (iii) defined as a "hazardous substance" pursuant to Section 101 of the Comprehensive Environmental Response; Compensation and Liability Act, 42 U.S.C. 9601 et seq. (42 U.S.C. 9601). As used herein, the term "Hazardous Material Law" shall mean any statute, law, ordinance, or regulation of any governmental body or agency (including the U.S. Environmental Protection Agency, the California Regional Water Quality Control Board, and the California Department of Health Services) which regulates the use, storage, release or disposal of any Hazardous Material.

F. Landlord represents and warrants to its actual knowledge, without independent investigation or the imputation of knowledge from any other party, that as of the date of the Lease, Landlord (i) is not in receipt of notice of a violation nor is Landlord aware of any violation of any applicable Hazardous Material Laws as of the date hereof with respect to the Premises or Building, (ii) no action, proceeding or claim is pending or threatened regarding the Premises, Building or Project concerning the presence of any Hazardous Materials. Except to the extent that the Hazardous Material in question was released, emitted, used, stored, manufactured, transported or discharged by Tenant or any of Tenant's Agents, Tenant shall not be responsible for and Tenant hereby is released from any claim, remediation obligation, monitoring obligation, removal obligation, investigation obligation, liability, cause of action, penalty, attorneys' fee, cost, expense or damage owing or alleged to be owing to any third party with respect to any Hazardous Material present on or about the Premises or the Project, or the soil, groundwater or surface water thereof, without regard to whether the Hazardous Materials were present on the Premises or the Project as of the Commencement Date or whether the presence of the Hazardous Materials was caused by any person other than Landlord.

G. The obligations of Landlord and Tenant under this paragraph 7.2 shall survive the expiration or earlier termination of the Lease Term. The

rights and obligations of Landlord and Tenant with respect to issues relating to Hazardous Materials are exclusively established by this paragraph 7.2. In the event of any inconsistency between any other part of this Lease and this paragraph 7.2, the terms of this paragraph 7.2 shall control.

7.3 Utilities: Tenant shall promptly pay, as the same become due, all charges for water, gas, electricity, telephone, sewer service, waste pick-up and any other utilities, materials or services furnished directly to or used by Tenant on or about the Premises during the Lease Term, including, without limitation, (i) meter, use and/or connection fees, hook-up fees, or standby fee (excluding any connection fees or hook-up fees which relate to making the existing electrical, gas, and water service available to the Premises as of the Commencement Date), and (ii) penalties for discontinued or interrupted service. If any utility service is not separately metered to the Premises, then Tenant shall pay its pro rata share of the cost of such utility service with all others served by the service not separately metered. However, if Landlord determines that Tenant is using a disproportionate amount of any utility service not separately metered, then Landlord at its election may (i) periodically charge Tenant, as Additional Rent, a sum equal to Landlord's reasonable estimate of the cost of Tenant's excess use of such utility service, or (ii) install a separate meter (at Tenant's expense) to measure the utility service supplied to the Premises.

7.4 Compliance with Governmental Regulations: Landlord and Tenant shall comply with all rules, regulations and requirements promulgated by national, state or local governmental agencies or utility suppliers concerning the use of utility services, including any rationing, limitation or other control. Tenant shall not be entitled to terminate this Lease nor to any abatement in rent by reason of such compliance. Notwithstanding anything to the contrary contained in this Lease, if Tenant is unable to conduct its business in the Premises due to a cessation of utilities required to be provided to the Premises by Landlord as a result of the active negligence or willful misconduct of Landlord, its agents, employees or contractors and not due to any other third party or the utility company providing the service, and the cessation of utilities and interference with Tenant's use of the Premises persists for seven (7) consecutive calendar days after Landlord's receipt of notice from Tenant of such cessation, then Tenant shall be entitled to an equitable abatement of Rent and Tenant's Share of Common Operating Expenses to the extent of the interference with Tenant's use of the Premises occasioned thereby until service is restored.

ARTICLE 8 COMMON OPERATING EXPENSES

8.1 Tenant's Obligation to Reimburse: As Additional Rent, Tenant shall pay Tenant's Share (specified in Section G of the Summary) of all Common Operating Expenses; provided, however, if the Project contains more than one building, then Tenant shall pay Tenant's Share of all Common Operating Expenses fairly allocable to the Building, including (i) all Common Operating Expenses paid with respect to the maintenance, repair, replacement and use of the Building, and (ii) a proportionate share (based on the Building Gross Leasable Area as a percentage of the Project Gross Leasable Area) of all Common Operating Expenses which relate to the Project in general are not fairly allocable to any one building that is part of the Project. Tenant shall pay such share of the actual Common Operating Expenses incurred or paid by Landlord but not theretofore billed to Tenant within 20 days after receipt of a written bill therefor from Landlord, on such periodic basis as Landlord shall designate, but in no event more frequently than once a month. Alternatively, Landlord may from time to time require that Tenant pay Tenant's Share of Common Operating Expenses in advance in estimated monthly installments, in accordance with the following: (i) Landlord shall deliver to Tenant Landlord's reasonable estimate of the Common Operating expenses it anticipates will be paid or incurred for the Landlord's fiscal year in question; (ii) during such Landlord's fiscal year Tenant shall pay such share of the estimated Common Operating Expenses in advance in monthly installments as required by Landlord due with the installments of Base Monthly Rent; and (iii) within 120 days after the end of each Landlord's fiscal year, Landlord shall furnish to Tenant a statement in reasonable detail of the actual Common Operating Expenses paid or incurred by Landlord during the just ended Landlord's fiscal year and thereupon there shall be an adjustment between Landlord and Tenant, with payment to Landlord or credit by Landlord against the next installment of Base Monthly Rent, as the case may require, within 20 days after delivery by Landlord to Tenant of said statement, so that Landlord shall receive the entire amount of Tenant's Share of all Common

Operating Expenses for such Landlord's fiscal year and no more. Tenant shall have the right at its expense, exercisable upon reasonable prior written notice to Landlord, to inspect at Landlord's office during normal business hours Landlord's books and records as they relate to Common Operating Expenses. Such inspection must be within 60 days of Tenant's receipt of Landlord's annual statement for the same, and shall be limited to verification of the charges contained in such statement. Tenant may not withhold payment of such bill pending completion of such inspection.

8.2 Common Operating Expenses Defined: The term "Common Operating Expenses" shall mean the following:

A. All costs and expenses paid or incurred by Landlord in doing the following (including payments to independent contractors providing services related to the performance of the following): (i) maintaining, cleaning, repairing and resurfacing the roof (including repair of leaks) and the exterior surfaces (including painting) of all buildings located on the Project; (ii) maintenance of the liability, fire, property damage, earthquake and other insurance covering the Project carried by Landlord pursuant to paragraph 9.2 (including the prepayment of premiums for coverage of up to one year); (iii) maintaining, repairing, operating and replacing when necessary HVAC equipment, utility facilities and other building service equipment; (iv) providing utilities to the Common Area (including lighting, trash removal and water for landscaping irrigation); (v) complying with all applicable Laws and Private Restrictions; (vi) operating, maintaining, repairing, cleaning, painting, restriping and resurfacing the Common Area; (vii) replacement or installation of lighting fixtures, directional or other signs and signals, irrigation systems, trees, shrubs, ground cover and other plant materials, and all landscaping in the Common Area; and (viii) providing security (provided, however, that Landlord shall not be obligated to provide security and if it does, Landlord may discontinue such service at any time and in any event Landlord shall not be responsible for any act or omission of any security personnel); and (ix) capital improvements as provided in paragraph 5.4 hereof;

B. The following costs: (i) Real Property Taxes as defined in paragraph 8.3; (ii) the amount of any "deductible" paid by Landlord with respect to damage caused by any Insured Peril; (iii) the cost to repair damage caused by an Uninsured Peril up to a maximum amount in any 12 month period equal to 2% of the replacement cost of the buildings or other improvements damaged; and (iv) that portion of all compensation (including benefits and premiums for workers' compensation and other insurance) paid to or on behalf of employees of Landlord but only to the extent they are involved in the performance of the work described by paragraph 8.2A that is fairly allocable to the Project;

C. Fees for management services rendered by either Landlord or a third party manager engaged by Landlord (which may be a party affiliated with Landlord), except that the total amount charged for management services and included in Tenant's Share of Common Operating Expenses shall not exceed the monthly rate of 3% of the Base Monthly Rent.

D. All additional costs and expenses incurred by Landlord with respect to the operation, protection, maintenance, repair and replacement of the Project which would be considered a current expense (and not a capital expenditure) pursuant to generally accepted accounting principles; provided, however, that Common Operating Expenses shall not include any of the following: (i) payments on any loans or ground leases affecting the Project; (ii) depreciation of any buildings or any major systems of building service equipment within the Project; (iii) leasing commissions; (iv) the cost of tenant improvements installed for the exclusive use of other tenants of the Project; and (v) any cost incurred in complying with Hazardous Materials Laws, which subject is governed exclusively by paragraph 7.2.

E. In addition, Common Area Costs shall not include any of the following for repairs, maintenance, improvements, replacements, premiums, claims, losses, fees, commissions, charges, disbursements, attorneys' fees, experts' fees, costs and expenses (collectively, "Costs"): (i) Costs occasioned by the act, omission or violation of law by Landlord, any other occupant of the Project, or their respective agents, employees or

contractors, or Costs to correct any construction defect in the Premises; (ii) Costs to the extent occasioned by fire, acts of God or other casualties, or by

the exercise of the power of eminent domain; (iii) Costs which would properly be capitalized under generally accepted accounting principles and which relate to repairs, alterations, improvements, replacements, equipment and tools except to the extent that Tenant's share of such Costs is amortized over the useful life of the capital improvement in question in accordance with generally accepted accounting principles; (iv) Costs to the extent for which Tenant pays directly to a third person or for which Landlord has a right of reimbursement from others; (v) Costs (A) arising from the disproportionate use of any utility or service supplied by Landlord to any other occupant of the Project; or (B) associated with utilities and services of a type not provided, offered or available to Tenant; (vi) Costs incurred in connection with negotiations or disputes with other occupant(s) of the Project or third parties, and Costs arising from the violation by Landlord or any occupant of the Project (other than Tenant) of the terms and conditions of any lease or other agreement; or (vii) expense reserves for expenses other than expenses anticipated to be incurred in the applicable calendar year (or other twelve month fiscal period selected by Landlord).

8.3 Real Property Taxes Defined: The term "Real Property Taxes" shall mean all taxes, assessments, levies, and other charges of any kind or nature whatsoever, general and special, foreseen and unforeseen (including all installments of principal and interest required to pay any existing or future general or special assessments for public improvements, services or benefits, and any increases resulting from reassessments resulting from a change in ownership, new construction, or any other cause), 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 the value, occupancy or use of all or any portion of the Project (as now constructed or as may at any time hereafter be constructed, altered, or otherwise changed) or Landlord's interest therein, the fixtures, equipment and other property of Landlord, real or personal, that are an integral part of and located on the Project, the gross receipts, income, or rentals from the Project, or the use of parking areas, public utilities, or energy within the Project, or Landlord's business of leasing the Project. If at any time during the Lease Term the method of taxation or assessment of the Project prevailing as of the Effective Date shall be altered so that in lieu of or in addition to any Real Property Tax 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 or additional tax or charge (i) on the value, use or occupancy of the Project or Landlord's interest therein, or (ii) on or measured by the gross receipts, income or rentals from the Project, on Landlord's business of leasing the Project, or 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 this Lease. If any Real Property Tax is based upon property or rents unrelated to the Project, then only that part of such Real Property Tax that is fairly allocable to the Project shall be included within the meaning of the term "Real Property Taxes". Notwithstanding the foregoing, the term "Real Property Taxes" shall not include estate, inheritance, transfer, gift or franchise taxes of Landlord or the federal or state net income tax imposed on Landlord's income from all sources. In addition, Tenant shall not be required to pay any portion of any tax or assessment expense in excess of the amount which would be payable if such tax or assessment expense were paid in installments over the longest possible term without the imposition of penalties.

ARTICLE 9 INSURANCE

9.1 Tenant's Insurance: Tenant shall maintain insurance complying with all of the following:

A. Tenant shall procure, pay for and keep in full force and effect the following:

(1) Commercial general liability insurance, including property damage, against liability for personal injury, bodily injury, death and damage to property occurring in or about, or resulting from an occurrence in or about, the Premises with combined single limit coverage of not less than the amount of Tenant's Liability Insurance Minimum specified in Section P of the Summary, which insurance shall contain a "contractual liability" endorsement insuring Tenant's performance of Tenant's obligation to indemnify Landlord contained in paragraph 10.3;

(2) Fire and property damage insurance in so-called "all risk" form insuring Tenant's Trade Fixtures and Tenant's Alterations for the

full actual replacement cost thereof;

(3) Business interruption insurance with limits of liability representing at least approximately six months of income, business auto liability covering owned, non-owned and hired vehicles with a limit of not less than $1,000,000 per accident, insurance protecting against liability under workers' compensation laws with limits at least as required by statute, insurance for all plate glass in the Premises, and such other insurance that is either (i) reasonably required by any Lender, or (ii) reasonably required by Landlord and customarily carried by tenants of similar property in similar businesses.

B. Where applicable and required by Landlord, each policy of insurance required to be carried by Tenant pursuant to this paragraph 9.1: (i) shall name Landlord and such other parties in interest as Landlord reasonably designates as additional insured; (ii) shall be primary insurance which provides 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; (iii) shall be in a form reasonably satisfactory to Landlord; (iv) shall be carded with companies reasonably acceptable to Landlord; (v) shall provide that such policy shall not be subject to cancellation, lapse or change except after at least 30 days prior written notice to Landlord so long as such provision of 30 days notice is reasonably obtainable, but in any event not less

than 10 days prior written notice; (vi) shall not have a "deductible" in excess of such amount as is approved by Landlord, except that for the original party signing this Lease as Tenant, the deductible may be in an amount normally and customary maintained by such Tenant for similar leased premises in the vicinity of the Premises or if such other premises are not present, then in an amount reasonably determined by such Tenant; (vii) shall contain a cross liability endorsement; and (viii) shall contain a "severability" clause. If Tenant has in full force and effect a blanket policy of liability insurance with the same coverage for the Premises as described above, as well as other coverage of other premises and properties of Tenant, or in which Tenant has some interest, such blanket insurance shall satisfy the requirements of this paragraph 9.1.

C. A certificate of the insurer, certifying that such policy has been issued, providing the coverage required by this paragraph 9.1, and containing the provisions specified herein, shall be delivered to Landlord prior to the time Tenant or any of its Agents enters the Premises and upon renewal of such policies, but not less than 5 days prior to the expiration of the term of such coverage. Landlord may, at any time, and from time to time, inspect and/or copy any and all insurance policies required to be procured by Tenant pursuant to this paragraph 9.1 not more frequently than once each calendar year, unless there is a claim or loss. If any Lender or insurance advisor reasonably determines at any time that the amount of coverage required for any policy of insurance Tenant is to obtain pursuant to this paragraph 9.1 is not adequate, then Tenant shall increase such coverage for such insurance to such amount as such Lender or insurance advisor reasonably deems adequate, not to exceed the level of coverage for such insurance commonly carried by comparable businesses similarly situated, and in any event nor more than once each calendar year.

9.2 Landlord's Insurance: Landlord shall have the following obligations and options regarding insurance:

A. Landlord shall maintain a policy or policies of fire and property damage insurance in so-called "all risk" form insuring Landlord (and such others as Landlord may designate) against loss of rents for a period of not less than 12 months and from physical damage to the Project, including the Building and the Tenant Improvements (to the extent the Tenant Improvements are affixed to the Premises and are owned by Landlord) with coverage of not less than the full replacement cost thereof. Landlord may so insure the Project separately, or may insure the Project with other property owned by Landlord which Landlord elects to insure together under the same policy or policies. Landlord shall have the right, but not the obligation, in its sole and absolute discretion, to obtain insurance for such additional perils that Landlord deems appropriate, including, without limitation, coverage for damage by earthquake and/or flood. All such coverage shall contain "deductibles" which Landlord deems reasonably appropriate, which in the case of earthquake and flood insurance, may be up to 10% of the replacement value of the property insured or such higher

amount as is then commercially reasonable. Landlord shall not be required to cause such insurance to cover any Trade Fixtures or Tenant's Alterations of Tenant. Notwithstanding anything to the contrary in this Lease, Tenant's obligation for payment of any deductible under any earthquake or flood insurance shall not exceed $25,000.00 per claim.

B. Landlord shall maintain a policy or policies of commercial general liability insurance insuring Landlord (and such others as are designated by Landlord) against liability for personal injury, bodily injury, death and damage to property occurring or resulting from an occurrence in, on or about the Project, with combined single limit coverage in such amount as Landlord from time to time determines is reasonably necessary for its protection.

C. Tenant's Obligation to Reimburse: If Landlord's insurance rates for the Building are increased at any time during the Lease Term as a result of the nature of Tenant's use of the Premises, Tenant shall reimburse Landlord for the full amount of such increase within twenty (20) days after receipt of a bill from Landlord therefor.

9.4 Release and Waiver of Subrogation: The parties hereto release each other, and their respective agents and employees, from any liability for injury to any person or damage to property that is caused by or results from any risk insured against under any valid and collectible insurance policy carried by either of the parties which contains a waiver of subrogation by the insurer and is in force at the time of such injury or damage; subject to the following limitations: (i) the foregoing provision shall not apply to the commercial general liability insurance described by subparagraphs paragraph 9.1A and paragraph 9.2B; (ii) such release shall apply to liability resulting from any risk insured against or covered by self-insurance maintained or provided by Tenant to satisfy the requirements of paragraph 9.1 to the extent permitted by this Lease; and (iii) Landlord and Tenant shall not be released from any such liability to the extent any damages resulting from such injury or damage are not covered by the recovery obtained by Tenant or Landlord from such insurance (or would have been recovered if Landlord or Tenant carried the insurance required of it under this Lease), but only if the insurance in question permits such partial release in connection with obtaining a waiver of subrogation from the insurer. This release shall be in effect only so long as the applicable insurance policy contains a clause to the effect that this release shall not affect the right of the insured to recover under such policy. Each party shall use reasonable efforts to cause each insurance policy obtained by it to provide that the insurer waives all right of recovery by way of subrogation against the other party and its agents and employees in connection with any injury or damage covered by such policy. However, if any insurance policy cannot be obtained with such a waiver of subrogation, or if such waiver of subrogation is only available at additional cost and the party for whose benefit the waiver is to be obtained does not pay such additional cost, then the party obtaining such insurance shall notify the other party of that fact and thereupon shall be relieved of the obligation to obtain such waiver of subrogation rights from the insurer with respect to the particular insurance involved.

ARTICLE 10 LIMITATION ON LANDLORD'S LIABILITY AND INDEMNITY

10.1 Limitation on Landlord's Liability: Landlord shall not be liable to Tenant, nor shall Tenant be entitled to terminate this Lease or to any abatement of rent (except as expressly provided otherwise herein), for any injury to Tenant or Tenant's Agents, damage to the property of Tenant or Tenant's Agents, or loss to Tenant's business resulting from any cause, including without limitation any: (i) failure, interruption or installation of any HVAC or other utility system or service; (ii) failure to furnish or delay in furnishing any utilities or services when such failure or delay is caused by fire or other peril, the elements, labor disturbances of any character, or any other accidents or other conditions beyond the reasonable control of Landlord; (iii) limitation, curtailment, rationing or restriction on the use of water or electricity, gas or any other form of energy or any services or utility serving the Project; (iv) vandalism or forcible entry by unauthorized persons or the criminal act of any person; or (v) penetration of water into or onto any portion of the Premises or the Building through roof leaks or otherwise. Notwithstanding the foregoing but subject to paragraph 9.4, Landlord shall be liable for any such injury, damage or loss which is proximately caused by the willful misconduct or active negligence of Landlord or its agents, employees or contractors.

10.2 Limitation on Tenant's Recourse: If Landlord is a corporation, trust, partnership, joint venture, unincorporated association or other form of business entity: (i) the obligations of Landlord shall not constitute personal obligations of the officers, directors, trustees, partners, joint venturers, members, owners, stockholders, or other principals or representatives of such business entity; and (ii) Tenant shall not have recourse to the assets of such officers, directors, trustees, partners, joint venturers, members, owners, stockholders, principals or representatives except to the extent of their interest in the Project. Tenant shall have recourse only to the interest of Landlord in the Project, including the rental stream or sales proceeds therefrom, for the satisfaction of the obligations of Landlord and shall not have recourse to any other assets of Landlord for the satisfaction of such obligations.

10.3 Indemnification of Landlord: Subject to the provisions of paragraph 9.4 hereof, Tenant shall hold harmless, indemnify and defend Landlord, and its employees, agents and contractors, with competent counsel reasonably satisfactory to Landlord (and Landlord agrees to accept counsel that any insurer requires be used), from all liability, penalties, losses, damages, costs, expenses, causes of action, claims and/or judgments arising by reason of any death, bodily injury, personal injury or property damage resulting from (i) any cause or causes whatsoever (except to the extent caused by the willful misconduct or active negligence of Landlord, or that of Landlord's agents, employees or contractors, but which Landlord has failed to cure) occurring in or about or resulting from an occurrence in or about the Premises during the Lease Term, (ii) the negligence or willful misconduct of Tenant or its agents, employees and contractors, wherever the same may occur, within the Project, or (iii) an Event of Tenant's Default. The provisions of this paragraph 10.3 shall survive the expiration or sooner termination of this Lease.

10.4 Indemnification of Tenant: Subject to the provisions of paragraph 9.4 hereof, Landlord shall not be indemnified for and shall indemnify, defend, protect and hold harmless Tenant against all actions, claims, judgments, attorneys fees, demands, damages, liabilities, losses, penalties, costs or expenses suffered by Tenant by reason of injury to any person to the extent caused by the willful misconduct or active negligence of Landlord or its agents, employees or contractors. The provisions of this paragraph 10.4 shall survive the expiration or sooner termination of this Lease.

ARTICLE 11 DAMAGE TO PREMISES

11.1 Landlord's Duty to Restore: If the Premises are damaged by any peril after the Effective Date, Landlord shall restore the Premises unless the Lease is terminated by Landlord pursuant to paragraph 11.2 or by Tenant pursuant to paragraph 11.3. All insurance proceeds available from the fire and property damage insurance carried by Landlord pursuant to paragraph 9.2 shall be paid to and become the property of Landlord. If this Lease is terminated pursuant to either paragraph 11.2 or paragraph 11.3, then all insurance proceeds available from insurance carried by Tenant which covers loss to property that is Landlord's property or would become Landlord's property on termination of this Lease shall be paid to and become the property of Landlord. If this Lease is not so terminated, then upon receipt of the insurance proceeds (if the loss is covered by insurance) and the issuance of all necessary governmental permits, Landlord shall commence and diligently prosecute to completion the restoration of the Premises, to the extent then allowed by Law, to substantially the same condition in which the Premises were immediately prior to such damage. Landlord's obligation to restore shall be limited to the Premises and interior improvements constructed by Landlord as they existed as of the Commencement Date, excluding any Tenant's Alterations, Trade Fixtures and/or personal property constructed or installed by Tenant in the Premises. Tenant shall forthwith replace or fully repair all Tenant's Alterations and Trade Fixtures installed by Tenant and existing at the time of such damage or destruction, and all insurance proceeds received by Tenant from the insurance carried by it pursuant to paragraph 9.1A(2) shall be used for such purpose.

11.2 Landlord's Right to Terminate: Landlord shall have the right to terminate this Lease in the event any of the following occurs, which right may be exercised only by delivery to Tenant of a written notice of election to terminate within 30 days after the date of such damage:

A. Either the Project or the Building is damaged by an Insured Peril to such an extent that the estimated cost to restore exceeds 33% of the then actual replacement cost thereof;

18

B. Either the Project or the Building is damaged by an Uninsured Peril to such an extent that the estimated cost to restore exceeds 2% of the then actual replacement cost thereof; provided, however, that Landlord may not terminate this Lease pursuant to this paragraph 11.2B if one or more tenants of the Project agree in writing to pay the amount by which the cost to restore the damage exceeds such amount and subsequently deposit such amount with Landlord within 30 days after Landlord has notified Tenant of its election to terminate this Lease;

C. The Premises are damaged by any peril within 12 months of the last day of the Lease Term to such an extent that the estimated cost to restore equals or exceeds an amount equal to six times the Base Monthly Rent then due; provided, however, that Landlord may not terminate this Lease pursuant to this paragraph 11.2C if Tenant, at the time of such damage, has a then valid express written option to extend the Lease Term and Tenant exercises such option to extend the Lease Term within 15 days following the date of such damage; or

D. Either the Project or the Building is damaged by any peril and, because of the Laws then in force, (i) cannot be restored at reasonable cost to substantially the same condition in which it was prior to such damage, or (ii) cannot be used for the same use being made thereof before such damage if restored as required by this Article.

E. As used herein, the following terms shall have the following meanings: (i) the term "Insured Peril" shall mean a peril actually insured against for which the insurance proceeds actually received by Landlord are sufficient (except for any "deductible" amount specified by such insurance) to restore the Project under then existing building codes to the condition existing immediately prior to the damage; and (ii) the term "Uninsured Peril" shall mean any peril which is not an Insured Peril. Notwithstanding the foregoing, if the "deductible" for earthquake or flood insurance exceeds 2% of the replacement cost of the improvements insured, such peril shall be deemed an "Uninsured Peril".

11.3 Tenant's Right to Terminate: If the Premises are damaged by any peril and Landlord does not elect to terminate this Lease or is not entitled to terminate this Lease pursuant to paragraph 11.2, then as soon as reasonably practicable, Landlord shall furnish Tenant with the written opinion of Landlord's architect or construction consultant as to when the restoration work required of Landlord may be completed. Tenant shall have the right to terminate this Lease in the event any of the following occurs, which right may be exercised only by delivery to Landlord of a written notice of election to terminate within 10 business days after Tenant receives from Landlord the estimate of the time needed to complete such restoration.

A. The Premises are damaged by any peril and, in the reasonable opinion of Landlord's architect or construction consultant, the restoration of the Premises cannot be substantially completed within 270 days after the date of such damage; or

B. The Premises are damaged by any peril within 12 months of the last day of the Lease Term and, in the reasonable opinion of Landlord's architect or construction consultant, the restoration of the Premises cannot be substantially completed within 90 days after the date of such damage and such damage renders unusable more than 30% of the Premises.

C. If Landlord commences the repair of the damage or destruction, and the repairs are not completed within two hundred seventy (270) days after commencement of the repairs, unless the delay is caused by Tenant or unless Landlord previously notified Tenant of a delay and within ten (10) days after receipt of such notice, Tenant does not provide written notice of termination to Landlord.

11.4 Abatement of Rent: In the event of damage to the Premises which does not result in the termination of this Lease, the Base Monthly Rent and the Additional Rent shall be temporarily abated during the period of restoration in proportion to the degree to which Tenant's use of the Premises is impaired by such damage. Tenant shall not be entitled to any compensation or damages from Landlord for loss of Tenant's business or property or for any inconvenience or annoyance caused by such damage or restoration. Tenant hereby waives the provisions of California Civil Code Sections 1932(2) and 1933(4) and the

provisions of any similar law hereinafter enacted.

ARTICLE 12 CONDEMNATION

12.1 Landlord's Termination Right: Landlord shall have the right to terminate this Lease if, as a result of a taking by means of the exercise of the power of eminent domain (including a voluntary sale or transfer by Landlord to a condemnor under threat of condemnation), (i) 33% or more of the Premises is so taken, (ii) more than 10% of the Building Leasable Area is so taken, or (iii) more than 50% of the Common Area is so taken. Any such right to terminate by Landlord must be exercised within a reasonable period of time, to be effective as of the date possession is taken by the condemnor.

12.2 Tenant's Termination Right: Tenant shall have the right to terminate this Lease if, as a result of any taking by means of the exercise of the power of eminent domain (including any voluntary sale or transfer by Landlord to any condemnor under threat of condemnation), (i) 10% or more of the Premises is so taken and that part of the Premises that remains cannot be restored within a reasonable period of time and thereby made reasonably suitable for the continued operation of the Tenant's business, or (ii) there is a taking affecting the Common Area and, as a result of such taking, Landlord cannot provide parking spaces within reasonable walking distance of the Premises equal in number to at least 80% of the number of spaces allocated to Tenant by paragraph 2.1,

whether by rearrangement of the remaining parking areas in the Common Area (including construction of multi-deck parking structures or restriping for compact cars where permitted by Law) or by alternative parking facilities on other land. Tenant must exercise such right within a reasonable period of time, to be effective on the date that possession of that portion of the Premises or Common Area that is condemned is taken by the condemnor.

12.3 Restoration and Abatement of Rent: If any part of the Premises or the Common Area is taken by condemnation and this Lease is not terminated, then Landlord shall restore the remaining portion of the Premises and Common Area and interior improvements constructed by Landlord as they existed as of the Commencement Date, excluding any Tenant's Alterations, Trade Fixtures and/or personal property constructed or installed by Tenant. Thereafter, except in the case of a temporary taking, as of the date possession is taken the Base Monthly Rent and Additional Rent shall be reduced in the same proportion that the floor area of that part of the Premises so taken (less any addition thereto by reason of any reconstruction) bears to the original floor area of the Premises.

12.4 Temporary Taking: If any portion of the Premises is temporarily taken for one year or less, this Lease shall remain in effect. If any portion of the Premises is temporarily taken by condemnation for a period which exceeds one year or which extends beyond the natural expiration of the Lease Term, and such taking materially and adversely affects Tenant's ability to use the Premises for the Permitted Use, then Tenant shall have the right to terminate this Lease, effective on the date possession is taken by the condemnor.

12.5 Division of Condemnation Award: Any award made as a result of any condemnation of the Premises or the Common Area shall belong to and be paid to Landlord, and Tenant hereby assigns to Landlord all of its right, title and interest in any such award; provided, however, that Tenant shall be entitled to receive any condemnation award that is made directly to Tenant for the following so long as the award made to Landlord is not thereby reduced: (i) for the taking of personal property or Trade Fixtures belonging to Tenant or for the unamortized cost of Tenant's Alterations installed and paid for by Tenant and which Tenant is obligated to remove under this Lease, (ii) for the interruption of Tenant's business or its moving and relocation costs, (iii) for loss of Tenant's goodwill; or (iv) for any temporary taking where this Lease is not terminated as a result of such taking. The rights of Landlord and Tenant regarding any condemnation shall be determined as provided in this Article, and each party hereby waives the provisions of California Code of Civil Procedure Section 1265.130 and the provisions of any similar law hereinafter enacted allowing either party to petition the Superior Court to terminate this Lease in the event of a partial taking of the Premises.

ARTICLE 13 DEFAULT AND REMEDIES

13.1 Events of Tenant's Default: Tenant shall be in default of its obligations under this Lease if any of the following events occurs (an "Event of Tenant's Default"):

A. Tenant shall have failed to pay Base Monthly Rent or Additional Rent when due, and such failure is not cured within 3 days after delivery of written notice from Landlord specifying such failure to pay; or

B. Tenant shall have failed to perform any term, covenant, or condition of this Lease except those requiring the payment of Base Monthly Rent or Additional Rent, and Tenant shall have failed to cure such breach within 30 days after written notice from Landlord specifying the nature of such breach where such breach could reasonably be cured within said 30 day period, or if such breach could not be reasonably cured within said 30 day period, Tenant shall have failed to commence such cure within said 30 day period and thereafter continue with due diligence to prosecute such cure to completion within such time period as is reasonably needed but not to exceed 90 days from the date of Landlord's notice; or

C. Tenant shall have sublet the Premises or assigned its interest in the Lease in violation of the provisions contained in Article 14; or

D. Tenant shall have abandoned the Premises or left the Premises substantially vacant when combined with Tenant's failure to pay the Rent due hereunder;, or

E. The occurrence of the following: (i) the making by Tenant of any general arrangements or assignments for the benefit of creditors; (ii) Tenant becomes a "debtor" as defined in 11 USC Section 101 or any successor statute thereto (unless, in the case of a petition filed against Tenant, the same is dismissed within 60 days); (iii) the appointment of a trustee or receiver to take possession of substantially all of Tenant's assets located at the Premises or of Tenant's interest in this Lease, where possession is not restored to Tenant within 60 days; or (iv) the attachment, execution or other judicial seizure of substantially all of Tenant's assets located at the Premises or of Tenant's interest in this Lease, where such seizure is not discharged within 60 days; provided, however, in the event that any provision of this Section 13.1E is contrary to any applicable Law, such provision shall be of no force or effect; or

F. Tenant shall have failed to deliver documents required of it pursuant to paragraph 15.4 or paragraph 15.6 within the time periods specified therein; or

G. Any three (3) failures by Tenant to observe and perform any monetary provision of this Lease during any calendar year shall constitute, at the option of Landlord, a separate and noncurable default.

Any written notice of default sent by Landlord to Tenant shall be in lieu of, and not in addition to, any termination notice required under applicable statutory or regulatory provisions (and no further notice shall be required should Landlord elect to terminate this Lease as set forth below).

13.2 Landlord's Remedies: If an Event of Tenant's Default occurs, Landlord shall have the following remedies, in addition to all other rights and remedies provided by any Law or otherwise provided in this Lease, to which Landlord may resort cumulatively or in the alternative:

A. Landlord may keep this Lease in effect and enforce by an action at law or in equity all of its rights and remedies under this Lease, including (i) the right to recover the rent and other sums as they become due by appropriate legal action, (ii) the right to make payments required of Tenant or perform Tenant's obligations and be reimbursed by Tenant for the cost thereof with interest at the Agreed Interest Rate from the date the sum is paid by Landlord until Landlord is reimbursed by Tenant, and (iii) the remedies of injunctive relief and specific performance to compel Tenant to perform its obligations under this Lease. Notwithstanding anything contained in this Lease, in the event of a breach of an obligation by Tenant which results in a condition which poses an imminent danger to safety of persons or damage to property, an unsightly condition visible from the exterior of the Building, or a threat to insurance coverage, then if Tenant does not cure such breach within 3 days after

delivery to it of written notice from Landlord identifying the breach, Landlord may cure the breach of Tenant and be reimbursed by Tenant for the cost thereof with interest at the Agreed Interest Rate from the date the sum is paid by Landlord until Landlord is reimbursed by Tenant.

B. Landlord may enter the Premises and release them to third parties for Tenant's account for any period, whether shorter or longer than the remaining Lease Term. Tenant shall be liable immediately to Landlord for all costs Landlord incurs in releasing the Premises, including brokers' commissions, expenses of altering and preparing the Premises for the permitted use required by the releasing. Tenant shall pay to Landlord the rent and other sums due under this Lease on the date the rent is due, less the rent and other sums Landlord received from any releasing. No act by Landlord allowed by this subparagraph shall terminate this Lease unless Landlord notifies Tenant in writing that Landlord elects to terminate this Lease. Notwithstanding any releasing without termination, Landlord may later elect to terminate this Lease because of the default by Tenant.

C. Landlord may terminate this Lease by giving Tenant written notice of termination, in which event this Lease shall terminate on the date set forth for termination in such notice. Any termination under this paragraph 13.2C shall not relieve Tenant from its obligation to pay sums then due Landlord or from any claim against Tenant for damages or rent previously accrued or then accruing. In no event shall any one or more of the following actions by Landlord, in the absence of a written election by Landlord to terminate this Lease, constitute a termination of this Lease: (i) appointment of a receiver or keeper in order to protect Landlord's interest hereunder, (ii) consent to any subletting of the Premises or assignment of this Lease by Tenant, whether pursuant to the provisions hereof or otherwise; or (iii) any other action by Landlord or Landlord's Agents intended to mitigate the adverse effects of any breach of this Lease by Tenant, including without limitation any action taken to maintain and preserve the Premises or any action taken to relet the Premises or any portions thereof to the extent such actions do not affect a termination of Tenant's right to possession of the Premises.

D. In the event Tenant breaches this Lease and abandons the Premises, this Lease shall not terminate unless Landlord gives Tenant written notice of its election to so terminate this Lease. No act by or on behalf of Landlord intended to mitigate the adverse effect of such breach, including those described by paragraph 13.C, shall constitute a termination of Tenant's right to possession unless Landlord gives Tenant written notice of termination. Should Landlord not terminate this Lease by giving Tenant written notice, Landlord may enforce all its rights and remedies under this Lease, including the right to recover the rent as it becomes due under the Lease as provided in California Civil Code Section 1951.4.

E. In the event Landlord terminates this Lease, Landlord shall be entitled, at Landlord's election, to damages in an amount as set forth in California Civil Code Section 1951.2 as in effect on the Effective Date. For purposes of computing damages pursuant to California Civil Code Section 1951.2, (i) an interest rate equal to the Agreed Interest Rate shall be used where permitted, and (ii) the term "rent" includes Base Monthly Rent and Additional Rent. Such damages shall include:

(1) 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, computed by discounting such amount at the discount rate of the Federal Reserve Bank of San Francisco at the time of award plus one percent (1%); and

(2) Any other amount necessary to compensate Landlord for all 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 the following: (i) expenses for cleaning, repairing or restoring the Premises; (ii) expenses for altering, remodeling or otherwise improving the Premises for the purpose of reletting for the permitted use, including installation of leasehold improvements (whether such installation be funded by a reduction of rent, direct payment or allowance to a new tenant, or otherwise); (iii) broker's fees, advertising costs and other expenses of reletting the Premises; (iv) costs of carrying the Premises, such as taxes, insurance premiums, utilities and security precautions; (v) expenses in retaking possession of the Premises; and (vi) reasonable attorneys' fees and court costs incurred by Landlord in retaking possession of the Premises and in releasing the Premises or otherwise incurred as a result of Tenant's default.

21

F. Nothing in this paragraph 13.2 shall limit Landlord's right to indemnification from Tenant as provided in paragraph 7.2 and paragraph 10.3. Any notice given by Landlord in order to satisfy the requirements of' paragraph 13.1A or paragraph 13.1B above shall also satisfy the notice requirements of California Code of Civil Procedure Section 1161 regarding unlawful detainer proceedings.

13.3 Waiver: One party's consent to or approval of any act by the other party requiring the first party's consent or approval shall not be deemed to waive or render unnecessary the first party's consent to or approval of any subsequent similar act by the other party. The receipt by Landlord of any rent or payment with or without knowledge of the breach of any other provision hereof shall not be deemed a waiver of any such breach unless such waiver is in writing and signed by Landlord. No delay or omission in the exercise of any right or remedy accruing to either party upon any breach by the other party under this Lease shall impair such right or remedy or be construed as a waiver of any such breach theretofore or thereafter occurring. The waiver by either party of any breach of any provision of this Lease shall not be deemed to be a waiver of any subsequent breach of the same or of any other provisions herein contained.

13.4 Limitation On Exercise of Rights: At any time that an Event of Tenant's Default has occurred and remains uncured, (i) it shall not be unreasonable for Landlord to deny or withhold any consent or approval requested of it by Tenant which Landlord would otherwise be obligated to give, unless Tenant cures the Event of Tenant's Default at the time it requests Landlord's consent to the Transfer, and (ii) Tenant may not exercise any option to extend, right to terminate this Lease, or other right granted to it by this Lease which would otherwise be available to it.

13.5 Waiver by Tenant of Certain Remedies: Tenant waives the provisions of Sections 1932(1), 1941 and 1942 of the California Civil Code and any similar or successor law regarding Tenant's right to terminate this Lease or to make repairs and deduct the expenses of such repairs from the rent due under this Lease. Tenant hereby waives any right of redemption or relief from forfeiture under the laws of the State of California, or under any other present or future law, including the provisions of Sections 1174 and 1179 of the California Code of Civil Procedure.

ARTICLE 14 ASSIGNMENT AND SUBLETTING

14.1 Transfer By Tenant: The following provisions shall apply to any assignment, subletting or other transfer by Tenant or any subtenant or assignee or other successor in interest of the original Tenant (collectively referred to in this paragraph 14.1 as "Tenant"):

A. Tenant shall not do any of the following (collectively referred to herein as a "Transfer"), whether voluntarily, involuntarily or by operation of law, without the prior written consent of Landlord, which consent shall not be unreasonably withheld or delayed: (i) sublet all or any part of the Premises or allow it to be sublet, occupied or used by any person or entity other than Tenant; (ii) assign its interest in this Lease; (iii) mortgage or encumber the Lease (or otherwise use the Lease as a security device) in any manner; or (iv) materially amend or modify an assignment, sublease or other transfer that has been previously approved by Landlord. Tenant shall reimburse Landlord for all reasonable costs and attorneys' fees incurred by Landlord in connection with the evaluation, processing, and/or documentation of any requested Transfer, whether or not Landlord's consent is granted, not to exceed one Thousand Dollars ($1,000.00) per request for Transfer, unless Tenant or its transferee request changes to the form of consent or this Lease. Landlord's reasonable costs shall include the cost of any review or investigation performed by Landlord or consultant acting on Landlord's behalf of (i) Hazardous Materials (as defined in Section 7.2E of this Lease) used, stored, released, or disposed of by the potential Subtenant or Assignee, and/or (ii) violations of Hazardous Materials Law (as defined in Section 7.2E of this lease) by the Tenant or the proposed Subtenant or Assignee. Any Transfer so approved by Landlord shall not be effective until Tenant has delivered to Landlord an executed counterpart of the document evidencing the Transfer which (i) is in a form reasonably approved by Landlord, (ii) contains the same terms and conditions as stated in Tenant's notice given to Landlord pursuant to paragraph 14.1B, and (iii) in the case of an assignment of the Lease, contains the agreement of the proposed transferee to assume all obligations of Tenant under this Lease arising after the effective

date of such Transfer and to remain jointly and severally liable therefor with Tenant. Any attempted Transfer without Landlord's consent shall constitute an Event of Tenant's Default and shall be voidable at Landlord's option. Landlord's consent to any one Transfer shall not constitute a waiver of the provisions of this paragraph 14.1 as to any subsequent Transfer or a consent to any subsequent Transfer. No Transfer, even with the consent of Landlord, shall relieve Tenant of its personal and primary obligation to pay the rent and to perform all of the other obligations to be performed by Tenant hereunder. The acceptance of rent by Landlord from any person shall not be deemed to be a waiver by Landlord of any provision of this Lease nor to be a consent to any Transfer.

B. At least 30 days before a proposed Transfer is to become effective, Tenant shall give Landlord written notice of the proposed terms of such Transfer and request Landlord's approval, which notice shall include the following: (i) the name and legal composition of the proposed transferee; (ii) a current financial statement of the transferee, financial statements of the transferee covering the preceding three years if the same exist, and (if available) an audited financial statement of the transferee for a period ending not more than one year prior to the proposed effective date of the Transfer, all of which statements are prepared in accordance with generally accepted accounting principles; (iii) the nature of the proposed transferee's business to be carried on in the Premises; (iv) all consideration to be given on account of the Transfer, (v) a current financial statement of Tenant; and (vi) an accurately filled out response to Landlord's standard Hazardous Materials Questionnaire. Tenant shall provide to Landlord such other information as may be reasonably requested by Landlord within seven days after Landlord's receipt of such notice from Tenant. Landlord shall respond in writing to Tenant's request for

Landlord's consent to a Transfer within the later of (i) 20 days of receipt of such request together with the required accompanying documentation, or (ii) 15 days after Landlord's receipt of all information which Landlord reasonably requests within seven days after it receives Tenant's first notice regarding the Transfer in question. If Landlord fails to respond in writing within said period, then Tenant shall provide a second written notice to Landlord requesting such consent and if Landlord falls to respond within 5 days after receipt of such second notice, then Landlord will be deemed to have consented to such Transfer. Tenant shall immediately notify Landlord of any modification to the proposed terms of such Transfer, which shall also be subject Landlord's consent in accordance with the same process for obtaining Landlord's initial consent to such Transfer.

C. In the event that Tenant seeks to make any Transfer, Landlord shall have the right to terminate this Lease or, in the case of a sublease of less than all of the Premises, terminate this Lease as to that part of the Premises proposed to be so sublet (except as provided below), either (i) on the condition that the proposed transferee immediately enter into a direct lease of the Premises with Landlord (or, in the case of a partial sublease, a lease for the portion proposed to be so sublet) on the same terms and conditions contained in Tenant's notice, or (ii) so that Landlord is thereafter free to lease the Premises (or, in the case of a partial sublease, the portion proposed to be so sublet) to whomever it pleases on whatever terms are acceptable to Landlord. In the event Landlord elects to so terminate this Lease, then (i) if such termination is conditioned upon the execution of a lease between Landlord and the proposed transferee, Tenant's obligations under this Lease shall not be terminated until such transferee executes a new lease with Landlord, enters into possession and commences the payment of rent, and (ii) if Landlord elects simply to terminate this Lease (or, in the case of a partial sublease, terminate this Lease as to the portion to be so sublet), the Lease shall so terminate in its entirety (or as to the space to be so sublet) thirty (30) days after Landlord has notified Tenant in writing of such election. Upon such termination, Tenant shall be released from any further obligation under this Lease if it is terminated in its entirety, or shall be released from any further obligation under the Lease with respect to the space proposed to be sublet in the case of a proposed partial sublease. In the case of a partial termination of the Lease, the Base Monthly Rent and Tenant's Share shall be reduced to an amount which bears the same relationship to the original amount thereof as the area of that part of the Premises which remains subject to the Lease bears to the original area of the Premises. Landlord and Tenant shall execute a cancellation and release with respect to the Lease to effect such termination. Notwithstanding anything to the contrary contained in this paragraph, if Landlord elects to

terminate this Lease with respect to all or the portion of the Premises that is the subject of the Transfer, Tenant shall have the right, within five (5) days after receipt of notice of Landlord's election, to rescind its request for consent, in which case this Lease shall continue in full force and effect.

Notwithstanding the foregoing, Landlord shall not have the right to recapture any portion Premises in connection with a sublease that (i) is for less than 40% of the square footage of the Premises, and (ii) is for a term expiring not later than 20 months after the Commencement Date. While such sublease shall not be subject to Landlord's right to recapture, it shall be subject to all of the other provisions of Article 14 of this Lease.

D. If Landlord consents to a Transfer proposed by Tenant, Tenant may enter into such Transfer, and if Tenant does so, the following shall apply:

(1) Tenant shall not be released of its liability for the performance of all of its obligations under the Lease.

(2) If Tenant assigns its interest in this Lease, then Tenant shall pay to Landlord 80% of all Subrent (as defined in paragraph 14.1D(5)) received by Tenant over and above (i) the assignee's agreement to assume the obligations of Tenant under this Lease, and (ii) all Permitted Transfer Costs related to such assignment. In the case of assignment, the amount of Subrent owed to Landlord shall be paid to Landlord on the same basis, whether periodic or in lump sum, that such Subrent is paid to Tenant by the assignee. All Permitted Transfer Costs shall be amortized on a straight line basis over the term of such sublease (including any extension options) for purposes of calculating the amount due Landlord hereunder.

(3) If Tenant sublets any part of the Premises, then with respect to the space so subleased, Tenant shall pay to Landlord 80% of the positive difference, if any, between (i) all Subrent paid by the subtenant to Tenant, less (ii) the sum of all Base Monthly Rent and Additional Rent allocable to the space sublet and all Permitted Transfer Costs related to such sublease. Such amount shall be paid to Landlord on the same basis, whether periodic or in lump sum, that such Subrent is paid to Tenant by its subtenant.

(4) Tenant's obligations under this paragraph 14.1D shall survive any Transfer, and Tenant's failure to perform its obligations hereunder shall be an Event of Tenant's Default. At the time Tenant makes any payment to Landlord required by this paragraph 14.1D, Tenant shall deliver an itemized statement of the method by which the amount to which Landlord is entitled was calculated, certified by Tenant as true and correct. Landlord shall have the right at reasonable intervals to inspect Tenant's books and records relating to the payments due hereunder. Upon request therefor, Tenant shall deliver to Landlord copies of all bills, invoices or other documents upon which its calculations are based. Landlord may condition its approval of any Transfer upon obtaining a certification from both Tenant and the proposed transferee of all Subrent and other amounts that are to be paid to Tenant in connection with such Transfer.

(5) As used in this paragraph 14.1D, the term "Subrent" shall mean any consideration of any kind received, or to be received, by Tenant as a result of the Transfer, if such sums are related to Tenant's interest in this Lease or in the Premises, excluding payments from or on behalf of the transferee for Tenant's assets,

fixtures, inventory, accounts, goodwill, equipment, furniture, and general intangibles. As used in this paragraph 14.1D, the term "Permitted Transfer Costs" shall mean (i) all reasonable leasing commissions paid to third parties not affiliated with Tenant in order to obtain the Transfer in question, and (ii) all reasonable attorneys' fees incurred by Tenant with respect to the Transfer in question.

E. If Tenant is a corporation, the following shall be deemed a voluntary assignment of Tenant's interest in this Lease: (i) any dissolution, merger, consolidation, or other reorganization of or affecting Tenant, whether or not Tenant is the surviving corporation; and (ii) if the capital stock of Tenant is not publicly traded, the sale or transfer to one person or entity (or to any group of related persons or entities) stock possessing more than 50% of

the total combined voting power of all classes of Tenant's capital stock issued, outstanding and entitled to vote for the election of directors. If Tenant is a partnership, limited liability company or other entity any withdrawal or substitution (whether voluntary, involuntary or by operation of law, and whether occurring at one time or over a period of time) of any partner, member or other party owning 25% or more (cumulatively) of any interest in the capital or profits of the partnership, limited liability company or other entity or the dissolution of the partnership, limited liability company or other entity, shall be deemed a voluntary assignment of Tenant's interest in this Lease.

F. Notwithstanding anything contained in paragraph 14.1, so long as Tenant otherwise complies with the provisions of paragraph 14.1 Tenant may enter into any of the following transfers (a "Permitted Transfer") without Landlord's prior written consent, and Landlord shall not be entitled to terminate the Lease pursuant to paragraph 14.1C or to receive any part of any Subrent resulting therefrom that would otherwise be due it pursuant to paragraph 14.1D:

(1) Tenant may sublease all or part of the Premises or assign its interest in this Lease to any corporation which controls, is controlled by, or is under common control with the original Tenant to this Lease by means of an ownership interest of more than 50%;

(2) Tenant may assign its interest in the Lease to a corporation which results from a merger, consolidation or other reorganization in which Tenant is not the surviving corporation, so long as the surviving corporation has a net worth at the time of such assignment that is equal to or greater than the net worth of Tenant at the time Tenant entered into this Lease; and

(3) Tenant may assign this Lease to a corporation which purchases or otherwise acquires all or substantially all of the assets of Tenant, so long as such acquiring corporation has a net worth at the time of such assignment that is equal to or greater than the net worth of Tenant at the time Tenant entered into this Lease.

14.2 Transfer By Landlord: Landlord and its successors in interest shah have the right to transfer their interest in this Lease and the Project at any time and to any person or entity. In the event of any such transfer, the Landlord originally named herein (and, in the case of any subsequent transfer, the transferor) from the date of such transfer, shall be automatically relieved, without any further act by any person or entity, of all liability for the performance of the obligations of the Landlord hereunder which may accrue after the date of such transfer. After the date of any such transfer, the term "Landlord" as used herein shall mean the transferee of such interest in the Premises. Notwithstanding anything to the contrary contained in this Lease, Landlord shall not be relieved of its obligations under this Lease unless and until any assignee of or the successor in interest to Landlord's interest in this Lease assumes in writing the obligations of Landlord occurring on and after the effective date of the transfer.

ARTICLE 15 GENERAL PROVISIONS

15.1 Landlord's Right to Enter: Landlord and its agents may enter the Premises at any reasonable time after giving at least 24 hours' prior notice to Tenant (and immediately in the case of emergency) for the purpose of: (i) inspecting the same; (ii) posting notices of non-responsibility; (iii) supplying any service to be provided by Landlord to Tenant; (iv) during the last 12 months of the Lease Term showing the Premises to prospective purchasers, mortgagees or tenants; (v) making necessary alterations, additions or repairs; (vi) performing Tenant's obligations when Tenant has failed to do so after written notice from Landlord; (vii) placing upon the Premises ordinary "for lease" signs during the last 12 months of the Lease Term or "for sale" signs; and (viii) responding to an emergency. Landlord shall have the right to use any and all lawful means Landlord may deem necessary and proper to enter the Premises in an emergency. Any entry into the Premises obtained by Landlord in accordance with this paragraph 15.1 shall not be a forcible or unlawful entry into, or a detainer of, the Premises, or an eviction, actual or constructive, of Tenant from the Premises.

15.2 Surrender of the Premises: Upon the expiration or sooner termination of this Lease, Tenant shall vacate and surrender the Premises to Landlord in the same condition as existed at the Commencement Date, except for (i) reasonable wear and tear, (ii) damage caused by any peril or condemnation, (iii) contamination by Hazardous Materials for which Tenant is not responsible

pursuant to paragraph 7.2A or paragraph 7.2B, (iv) acts of God, and (v) Tenant's Alterations with respect to which Landlord has not reserved the right to require removal. In this regard, normal wear and tear shall be construed to mean wear and tear caused to the Premises by the natural aging process which occurs in spite of prudent application of commercial reasonable standards for maintenance, repair and janitorial practices, and does not include items of neglected or deferred maintenance. In any event, Tenant shall cause the following to be done prior to the expiration or the sooner termination of this Lease: (i) all interior walls shall be cleaned so that they appear freshly painted, or if necessary, painted; (ii) all tiled floors shall be cleaned and waxed; (iii) all carpets shall be cleaned and shampooed; (iv) all broken, marred, stained or nonconforming

acoustical ceiling tiles shall be replaced; (v) all windows shall be washed; (vi) the HVAC system shall be serviced by a reputable and licensed service firm and left in good operating condition and repair as so certified by such firm; and (vii) the plumbing and electrical systems and lighting shall be placed in good order and repair (including replacement of any burned out, discolored or broken light bulbs, ballasts, or lenses). If Landlord so requests, Tenant shall, not later than the expiration or sooner termination of this Lease, remove any Tenant's Alterations which Tenant is required to remove pursuant to paragraph 5.2 and repair and restore all damage caused by such removal. If the Premises are not so surrendered at the termination of this Lease, Tenant shall be liable to Landlord for all costs incurred by Landlord in returning the Premises to the required condition, plus interest on all costs incurred at the Agreed Interest Rate. 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 or losses to Landlord due to lost opportunities to lease to succeeding tenants.

15.3 Holding Over: This Lease shall terminate without further notice at the expiration of the Lease Term. Any holding over by Tenant after expiration of the Lease Term shall not constitute a renewal or extension of the Lease or give Tenant any rights in or to the Premises except as expressly provided in this Lease. Any holding over after such expiration with the written consent of Landlord shall be construed to be a tenancy from month to month on the same terms and conditions herein specified insofar as applicable except that Base Monthly Rent shall be increased to an amount equal to 150% of the greater of (a) the Base Monthly Rent payable during the last full calendar month of the Lease Term, or (b) the then prevailing fair market rent.

15.4 Subordination: The following provisions shall govern the relationship of this Lease to any Security Instrument:

A. The Lease is subject and subordinate to all Security Instruments existing as of the Effective Date. However, if any Lender so requires, this Lease shall become prior and superior to any such Security Instrument.

B. At Landlord's election, this Lease shall become subject and subordinate to any Security Instrument created after the Effective Date. Notwithstanding such subordination, Tenant's right to quiet possession of the Premises shall not be disturbed so long as Tenant is not in default beyond any applicable cure period and performs all of its obligations under this Lease.

C. Tenant shall upon request execute any commercially reasonable document or instrument required by any Lender to make this Lease either prior or subordinate to a Security Instrument, which may include such other matters as the Lender customarily and reasonably requires in connection with such agreements, including provisions that the Lender not be liable for (i) the return of any security deposit unless the Lender receives it from Landlord, and (ii) any defaults on the part of Landlord occurring prior to the time the Lender takes possession of the Project in connection with the enforcement of its Security Instrument. Tenant's failure to execute any such document or instrument within 10 business days after written demand therefor shall constitute an Event of Tenant's Default.

15.5 Mortgagee Protection and Attornment: In the event of any default on the part of the Landlord, Tenant will use reasonable efforts to give notice by registered mail to any Lender whose name has been provided to Tenant and shall offer such Lender a reasonable opportunity to cure the default, including

time to obtain possession of the Premises by power of sale or judicial foreclosure or other appropriate legal proceedings, if such should prove necessary to effect a cure. Tenant shall attorn to any purchaser of the Premises at any foreclosure sale or private sale conducted pursuant to any Security Instrument encumbering the Premises, or to any grantee or transferee designated in any deed given in lieu of foreclosure.

15.6 Estoppel Certificates and Financial Statements: At all times during the Lease Term, each party agrees, following any request by the other party, promptly to execute and deliver to the requesting party within 15 days following delivery of such request an estoppel certificate: (i) certifying that this Lease is unmodified and 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, (ii) stating the date to which the rent and other charges are paid in advance, if any, (iii) acknowledging that there are not, to the certifying party's knowledge, any uncured defaults on the part of any party hereunder or, if there are uncured defaults, specifying the nature of such defaults, and (iv) certifying such other information about the Lease as may be reasonably required by the requesting party. A failure to deliver an estoppel certificate within 15 days after delivery of a request therefor shall be a conclusive admission that, as of the date of the request for such statement: (i) this Lease is unmodified except as may be represented by the requesting party in said request and is in full force and effect, (ii) there are no uncured defaults in the requesting party's performance, and (iii) no rent has been paid more than 30 days in advance. At any time during the Lease Term, but not more than once each calendar year, Tenant shall, upon 15 days' prior written notice from Landlord, provide Tenant's most recent financial statement and financial statements covering the 24 month period prior to the date of such most recent financial statement to any existing Lender or to any potential Lender or buyer of the Premises. Such statements shall be prepared in accordance with generally accepted accounting principles and, if such is the normal practice of Tenant, shall be audited by an independent certified public accountant.

15.7 Intentionally Deleted.

15.8 Notices: Any notice required or desired to be given regarding this Lease shall be in writing and may be given by personal delivery, by facsimile, by courier service, or by mail. A notice shall be deemed to have been given (i) on the third business day after mailing if such notice was deposited in the United States mail,

25

certified or registered, postage prepaid, addressed to the party to be served at its Address for Notices specified in Section Q or Section R of the Summary (as applicable), (ii) when delivered if given by personal delivery, and (iii) in all other eases when actually received at the party's Address for Notices. Either party may change its address by giving notice of the same in accordance with this paragraph 15.8, provided, however, that any address to which notices may be sent must be a California address.

15.9 Attorneys' Fees: In the event either Landlord or Tenant shall bring any action or legal proceeding for an alleged breach of any provision of this Lease, to recover rent, to terminate this Lease or otherwise to enforce, protect or establish any term or covenant of this Lease, the prevailing party shall be entitled to recover as a part of such action or proceeding, or in a separate action brought for that purpose, reasonable attorneys' fees, court costs, and experts' fees as may be fixed by the court.

15.10 Corporate Authority: If Tenant is a corporation (or partnership), each individual executing this Lease on behalf of Tenant represents and warrants that he is duly authorized to execute and deliver this Lease on behalf of such corporation in accordance with the by-laws of such corporation (or partnership in accordance with the partnership agreement of such partnership) and that this Lease is binding upon such corporation (or partnership) in accordance with its terms. Each of the persons executing this Lease on behalf of a corporation does hereby covenant and warrant that the party for whom it is executing this Lease is a duly authorized and existing corporation, that it is qualified to do business in California, and that the corporation has full right and authority to enter into this Lease.

15.11 Miscellaneous: Should any provision of this Lease prove to be invalid or illegal, such invalidity or illegality shall in no way affect, impair

or invalidate any other provision hereof, and such remaining provisions shall remain in full force and effect. Time is of the essence with respect to the performance of every provision of this Lease in which time of performance is a factor. The captions used in this Lease are for convenience only and shall not be considered in the construction or interpretation of any provision hereof. Any executed copy of this Lease shall be deemed an original for all purposes. This Lease shall, subject to the provisions regarding assignment, apply to and bind the respective heirs, successors, executors, administrators and assigns of Landlord and Tenant. "Party" shall mean Landlord or Tenant, as the context implies. If Tenant consists of more than one person or entity, then all members of Tenant shall be jointly and severally liable hereunder. This Lease shall be construed and enforced 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. When the context of this Lease requires, the neuter gender includes the masculine, the feminine, a partnership or corporation or joint venture, and the singular includes the plural. The terms "shall", "will" and "agree" are mandatory. The term "may" is permissive. When a party is required to do something by this Lease, it shall do so at its sole cost and expense without right of reimbursement from the other party unless a provision of this Lease expressly requires reimbursement. Landlord and Tenant agree that (i) the gross leasable area of the Premises includes any atriums, depressed loading docks, covered entrances or egresses, and covered loading areas, (ii) each has had an opportunity to determine to its satisfaction the actual area of the Project and the Premises, (iii) all measurements of area contained in this Lease are conclusively agreed to be correct and binding upon the parties, even if a subsequent measurement of any one of these areas determines that it is more or less than the amount of area reflected in this Lease, and (iv) any such subsequent determination that the area is more or less than shown in this Lease shall not result in a change in any of the computations of rent, improvement allowances, or other matters described in this Lease where area is a factor. Where a party hereto is obligated not to perform any act, such party is also obligated to restrain any others within its control from performing said act, including the Agents of such party. Landlord shall not become or be deemed a partner or a joint venturer with Tenant by reason of the provisions of this Lease.

15.12 Termination by Exercise of Right: If this Lease is terminated pursuant to its terms by the proper exercise of a right to terminate specifically granted to Landlord or Tenant by this Lease, then this Lease shall terminate 30 days after the date the right to terminate is properly exercised (unless another date is specified in that part of the Lease creating the right, in which event the date so specified for termination shall prevail), the rent and all other charges due hereunder shall be prorated as of the date of termination, and neither Landlord nor Tenant shall have any further rights or obligations under this Lease except for those that have accrued prior to the date of termination or those obligations which this Lease specifically provides are to survive termination. This paragraph 15.12 does not apply to a termination of this Lease by Landlord as a result of an Event of Tenant's Default.

15.13 Brokerage Commissions: Each party hereto (i) represents and warrants to the other that it has not had any dealings with any real estate brokers, leasing agents or salesmen, or incurred any obligations for the payment of real estate brokerage commissions or finder's fees which would be earned or due and payable by reason of the execution of this Lease, other than to the Retained Real Estate Brokers described in Section S of the Summary, and (ii) agrees to indemnify, defend, and hold harmless the other party from any claim for any such commission or fees which result from the actions of the indemnifying party. Landlord shall be responsible for the payment of any commission owed to the Retained Real Estate Brokers if there is a separate written commission agreement between Landlord and the Retained Real Estate Brokers for the payment of a commission as a result of the execution of this Lease.

15.14 Force Majeure: Any prevention, delay or stoppage due to strikes, lock-outs, inclement weather, labor disputes, inability to obtain labor, materials, fuels or reasonable substitutes therefor, governmental restrictions, regulations, controls, action or inaction, civil commotion, fire or other acts of God, and other causes beyond the reasonable control of Landlord or Tenant (except financial inability) shall excuse the performance by Landlord or Tenant, for a period equal to the period of any said prevention, delay or stoppage, of any obligation

hereunder. The party claiming a delay hereunder shall notify the other party of the event constituting such force majeure delay hereunder promptly after such force majeure event occurs.

15.15 Entire Agreement: This Lease constitutes the entire agreement between the parties, and there are no binding agreements or representations between the parties except as expressed herein. Tenant acknowledges that neither Landlord nor Landlord's Agents has made any legally binding representation or warranty as to any matter except those expressly set forth herein, including any warranty as to (i) whether the Premises may be used for Tenant's intended use under existing Law, (ii) the suitability of the Premises or the Project for the conduct of Tenant's business, or (iii) except as set forth in this Lease, the condition of any improvements. There are no oral agreements between Landlord and Tenant affecting this Lease, and this Lease supersedes and cancels any and all previous negotiations, arrangements, brochures, agreements and understandings, if any, between Landlord and Tenant or displayed by Landlord to Tenant with respect to the subject matter of this Lease. This instrument shall not be legally binding until it is executed by both Landlord and Tenant. No subsequent change or addition to this Lease shall be binding unless in writing and signed by Landlord and Tenant.

IN WITNESS WHEREOF, Landlord and Tenant have executed this Lease with the intent to be legally bound thereby, to be effective as of the Effective Date.

LANDLORD:

By: SILICON VALLEY PROPERTIES, L.L.C.
a Delaware limited liability company

By: Divco West Group, LLC,
a Delaware limited liability company
Its Agent

By: /s/ Scott Smithers
Name: Scott Smithers
Its: President

Dated: September __, 1999

TENANT:

By: SYNAPTICS, INC.,
a California corporation

By: /s/ M. Visneski
Name: M. Visneski
Title: Corporate Controller

Dated: September 16, 1999

EXHIBIT 10.11

Customer Number: 33141
Lessee Number: 33143

MASTER EQUIPMENT LEASE AGREEMENT

THIS MASTER EQUIPMENT LEASE AGREEMENT dated as of November 28, 2000 is made by and between KEYCORP LEASING, A DIVISION OF KEY CORPORATE CAPITAL INC., having an address at 54 State Street, Albany, New York 12207 ("Lessor"), and SYNAPTICS INCORPORATED, a California corporation with its principal place of business at 2381 BERING DRIVE, SAN JOSE, CA 95131 ("Lessee").

TERMS AND CONDITIONS OF LEASE

1. LEASE. Lessor hereby leases to Lessee, and Lessee hereby leases from Lessor, the Equipment, subject to and upon the terms set forth herein. Each Equipment Schedule shall constitute a separate and enforceable lease incorporating all the terms of this Master Equipment Lease Agreement as if such terms were set forth in full in such Equipment Schedule. In the event that any term of any Equipment Schedule conflicts with or is inconsistent with any term of this Master Equipment Lease Agreement, the terms of the Equipment Schedule shall govern.

2. DISCLAIMER OF WARRANTIES. LESSOR MAKES NO (AND SHALL NOT BE DEEMED TO HAVE MADE ANY) WARRANTIES, EXPRESS OR IMPLIED, AS TO ANY MATTER WHATSOEVER, INCLUDING, WITHOUT LIMITATION, THE DESIGN, OPERATION OR CONDITION OF, OR THE QUALITY OF THE MATERIAL, EQUIPMENT OR WORKMANSHIP IN, THE EQUIPMENT, ITS MERCHANTABILITY OR ITS FITNESS FOR ANY PARTICULAR PURPOSE, THE STATE OF TITLE THERETO OR OF ANY COMPONENT THEREOF, THE ABSENCE OF LATENT OR OTHER DEFECTS (WHETHER OR NOT DISCOVERABLE), AND LESSOR HEREBY DISCLAIMS THE SAME; IT BEING UNDERSTOOD THAT THE EQUIPMENT IS LEASED TO LESSEE "AS IS" AND ALL SUCH RISKS, IF ANY, ARE TO BE BORNE BY LESSEE. NO DEFECT IN, OR UNFITNESS OF, THE EQUIPMENT, OR ANY OF THE OTHER FOREGOING MATTERS, SHALL RELIEVE LESSEE OF THE OBLIGATION TO PAY RENT OR OF ANY OTHER OBLIGATION HEREUNDER. LESSEE HAS MADE THE SELECTION OF THE EQUIPMENT FROM THE SUPPLIER BASED ON ITS OWN JUDGMENT AND EXPRESSLY DISCLAIMS ANY RELIANCE UPON ANY STATEMENTS OR REPRESENTATIONS MADE BY LESSOR. LESSOR IS NOT RESPONSIBLE FOR ANY REPAIRS, SERVICE, MAINTENANCE OR DEFECT IN THE EQUIPMENT OR THE OPERATION THEREOF. IN NO EVENT SHALL LESSOR BE LIABLE FOR ANY INDIRECT, SPECIAL OR CONSEQUENTIAL DAMAGES (WHETHER UNDER THE UCC OR OTHERWISE), INCLUDING, WITHOUT LIMITATION, ANY LOSS, COST OR DAMAGE TO LESSEE OR OTHERS ARISING FROM ANY OF THE FOREGOING MATTERS, INCLUDING, WITHOUT LIMITATION, DEFECTS, NEGLIGENCE, DELAYS, FAILURE OF DELIVERY OR NON-PERFORMANCE OF THE EQUIPMENT. ANY WARRANTY BY THE SUPPLIER IS HEREBY ASSIGNED TO LESSEE BY LESSOR FOR THE TERM OF THE LEASE WITHOUT RECOURSE. SUCH WARRANTY SHALL NOT RELEASE LESSEE FROM ITS OBLIGATION TO LESSOR TO PAY RENT, TO PERFORM ALL OTHER OBLIGATIONS HEREUNDER AND TO KEEP, MAINTAIN AND SURRENDER THE EQUIPMENT IN THE CONDITION REQUIRED BY SECTIONS 12 AND 13 HEREOF. Lessee's execution and delivery of a Certificate of Acceptance shall be conclusive evidence as between Lessor and Lessee that the Items of Equipment described therein are in all of the foregoing respects satisfactory to Lessee, and Lessee shall not assert any claim of any nature whatsoever against Lessor based on any of the foregoing matters; provided, however, that nothing contained herein shall in any way bar, reduce or defeat any claim that Lessee may have against the Supplier or any other person (other than Lessor).

3. NON-CANCELABLE LEASE. THIS LEASE IS A NET LEASE AND LESSEE'S OBLIGATION TO PAY RENT AND PERFORM ITS OBLIGATIONS HEREUNDER ARE ABSOLUTE, IRREVOCABLE AND UNCONDITIONAL UNDER ANY AND ALL CIRCUMSTANCES WHATSOEVER (INCLUDING WITHOUT LIMITATION THE BANKRUPTCY OF LESSOR) AND SHALL NOT BE SUBJECT TO ANY RIGHT OF SET OFF, COUNTERCLAIM, DEDUCTION, DEFENSE OR OTHER RIGHT WHICH LESSEE MAY HAVE AGAINST THE SUPPLIER, LESSOR OR ANY OTHER PARTY. LESSEE SHALL

HAVE NO RIGHT TO TERMINATE (EXCEPT AS EXPRESSLY PROVIDED HEREIN) OR CANCEL THIS LEASE OR TO BE RELEASED OR DISCHARGED FROM ITS OBLIGATION HEREUNDER FOR ANY REASON WHATSOEVER, INCLUDING, WITHOUT LIMITATION, DEFECTS IN, DESTRUCTION OF, DAMAGE TO OR INTERFERENCE WITH ANY USE OF THE EQUIPMENT (FOR ANY REASON WHATSOEVER, INCLUDING, WITHOUT LIMITATION, WAR, ACT OF GOD, STRIKE OR GOVERNMENTAL REGULATION), THE INVALIDITY, ILLEGALITY OR UNENFORCEABILITY (OR ANY ALLEGATION THEREOF) OF THIS LEASE OR ANY PROVISION HEREOF, OR ANY OTHER OCCURRENCE WHATSOEVER, WHETHER SIMILAR OR DISSIMILAR TO THE FOREGOING, WHETHER

FORESEEN OR UNFORESEEN.

4. DEFINITIONS. Unless the context otherwise requires, as used in this Lease, the following terms shall have the respective meanings indicated below and shall be equally applicable to both the singular and the plural forms thereof:
"Applicable Law" shall mean all applicable Federal, state, local and foreign laws, ordinances, judgments, decrees, injunctions, writs, rules, regulations, orders, licenses and permits of any Governmental Authority.
"Appraisal Procedure" shall mean the following procedure for obtaining an appraisal of the Fair Market Sales Value or the Fair Market Rental Value. Lessor shall provide Lessee with the names of three independent Appraisers. Within ten (10) business days thereafter, Lessee shall select one of such Appraisers to perform the appraisal. The selected Appraiser shall be instructed to perform its appraisal based upon the assumptions specified in the definition of Fair Market Sales Value or Fair Market Rental Value, as applicable, and shall complete its appraisal within twenty (20) business days after such selection. Any such appraisal shall be final, binding and conclusive on Lessee and Lessor and shall have the legal effect of an arbitration award. Lessee shall pay the fees and expenses of the selected Appraiser.
"Appraiser" shall mean a person engaged in the business of appraising property who has at least ten (10) years' experience in appraising property similar to the Equipment.
"Authorized Signer" shall mean any officer of Lessee, set forth on an incumbency certificate (in form and substance satisfactory to Lessor) delivered by Lessee to Lessor, who is authorized and empowered to execute the Lease Documents.
"Certificate of Acceptance" shall mean a certificate of acceptance, in form and substance satisfactory to Lessor, executed and delivered by Lessee in accordance with Section 7 hereof.
"Default" shall mean any event or condition which, with the passage of time or the giving of notice, or both, would constitute an Event of Default.
"Default Rate" shall mean an annual interest rate equal to the lesser of 18% or the maximum interest rate permitted by Applicable Law.
"Equipment" shall mean an item or items of property designated from time to time by Lessee which are described on an Equipment Schedule and which are being or will be leased by Lessee pursuant to this Lease, together with all replacement parts, additions and accessories incorporated therein or affixed thereto including, without limitation, any software that is a component or integral part of, or is included or used in connection with, any Item of Equipment, but with respect to such software, only to the extent of Lessor's interest therein, if any.
"Equipment Group" shall consist of all Items of Equipment listed on a particular Equipment Schedule.
"Equipment Location" shall mean the location of the Equipment, as set forth on an Equipment Schedule, or such other location (approved in writing by Lessor) as Lessee shah from time to time specify in writing.
"Equipment Schedule" shall mean each equipment lease schedule from time to time executed by Lessor and Lessee with respect to an Equipment Group, pursuant to and incorporating by reference all of the terms of this Master Equipment Lease Agreement.
"Event of Default" shall have the meaning specified in Section 22 hereof.
"Fair Market Rental Value" or "Fair Market Sale Value" shall mean the value of each Item of Equipment for lease or sale, unless otherwise specified herein as determined between Lessor and Lessee, or, if Lessor and Lessee are unable to agree, pursuant to the Appraisal Procedure, which would be obtained in an arms-length transaction between an informed and willing lessor or seller (under no compulsion to lease or sell) and an informed and willing lessee or buyer (under no compulsion to lease or purchase). In determining the Fair Market Rental Value or Fair Market Sale Value of the Equipment, (a) such Fair Market Rental Value or Fair Market Sale Value shall be calculated on the assumption that the Equipment is in the condition and repair required by Sections 12 and 13

hereof, and (b) there shall be excluded from the calculation thereof the value of any Upgrade made pursuant to Section 14 hereof in which the Lessor does not hold an interest.
"GAAP" shall have the meaning specified in Section 31 hereof.
"Governmental Action" shall mean all authorizations, consents, approvals, waivers, filings and declarations of any Governmental Authority, including, without limitation, those environmental and operating permits required for the ownership, lease, use and operation of the Equipment.
"Governmental Authority" shall mean any foreign, Federal, state, county,

municipal or other governmental authority, agency, board or court.
"Guarantor" shall mean any guarantor of Lessee's obligations hereunder.
"Initial Term Expiration Date" shall have the meaning set forth in the Equipment Schedule associated therewith. "Item of Equipment" shall mean each Item of the Equipment.
"Lease", "hereof", "herein" and "hereunder" shall mean, with respect to an Equipment Group, this Master Equipment Lease Agreement and the Equipment Schedule on which such Equipment Group is described, including all addenda attached thereto and made a part thereof.
"Lease Documents" shall mean this Lease and all other documents prepared by Lessor and now or hereafter executed in connection therewith.
"Lessor Assignee" shall have the meaning specified in Section 15 hereof.
"Lessor Expense" shall have the meaning specified in Section 26 hereof.
"Lessor Transfer" shall have the meaning specified in Section 15 hereof.
"Liability" shall have the meaning specified in Section 24 hereof.
"Lien" shall mean all mortgages, pledges, security interests, liens, encumbrances, claims or other charges of any kind whatsoever.
"Loss" shall have the meaning specified in Section 16 hereof.
"Purchase Agreement" shall mean any purchase agreement or other contract entered into between the Supplier and Lessee for the acquisition of the Equipment to be leased hereunder.
"Related Equipment Schedule" shall have the meaning specified in Section 27 hereof.
"Remedy Date" shall have the meaning specified in Section 22 hereof.
"Rent" shall mean the periodic rental payments due hereunder for the leasing of the Equipment, as set forth on the Equipment Schedules, and, where the context hereof requires, all such additional amounts as may from time to time be payable under any provision of this Lease.
"Rent Commencement Date" shall mean, with respect to an Equipment Group, (a) the date on which Lessor receives an executed Certificate of Acceptance for such Equipment from Lessee or (b) the date on which Lessor disburses funds for the purchase of such Equipment Group, as determined by Lessor in its sole discretion.
"Rent Payment Date" with respect to an Equipment Group, shall have the meaning set forth in the Equipment Schedule associated therewith.
"Required Alteration" shall have the meaning specified in Section 11 hereof.
"Stipulated Loss Value" shall mean, as of any Rent Payment Date and with respect to an Item of Equipment, the amount determined by multiplying the Total Cost for such Item of Equipment by the percentage specified in the applicable Stipulated Loss Value Supplement opposite such Rent Payment Date.
"Stipulated Loss Value Supplement" with respect to an Equipment Group, shall have the meaning set forth in the Equipment Schedule associated therewith.
"Supplier" shall mean the manufacturer or the vendor of the Equipment, as set forth on each Equipment Schedule.
"Term" shall mean the Initial Term or any Renewal Term, each as defined in Section 8 hereof, and any Extended Lease Term or Interim Term as defined in an Equipment Schedule.
"Total Cost" shall mean, with respect to an Item of Equipment, (a) the acquisition cost of such Item of Equipment (including Lessor's capitalized costs), as set forth on the Equipment Schedule on which such Item of Equipment is described, or (b) if no such acquisition cost is specified, the Supplier's invoice price for such Item of Equipment plus Lessor's capitalized costs, or (c) if no such acquisition cost is specified and no such invoice price is obtainable, an allocated price for such Item of Equipment based on the Total Cost of all Items of Equipment set forth on the Equipment Schedule on which such Item of Equipment is described, as determined by Lessor in its sole discretion.
"Upgrade" shall have the meaning specified in Section 14 hereof.

5. SUPPLIER NOT AN AGENT. LESSEE UNDERSTANDS AND AGREES THAT (a) NEITHER THE SUPPLIER, NOR ANY SALES REPRESENTATIVE OR OTHER AGENT OF THE SUPPLIER, IS (1) AN AGENT OF LESSOR OR (2) AUTHORIZED TO MAKE OR ALTER ANY TERM OR CONDITION OF THIS LEASE, AND (b) NO SUCH WAIVER OR ALTERATION SHALL VARY THE TERMS OF THIS LEASE UNLESS EXPRESSLY SET FORTH HEREIN.

6. ORDERING EQUIPMENT. Lessee has selected and ordered the Equipment from the Supplier and, if appropriate, has entered into a Purchase Agreement with respect thereto. Lessor may accept an assignment from Lessee of Lessee's rights, but none of Lessee's obligations, under any such Purchase Agreement. Lessee shall arrange for delivery of the Equipment so that it can be accepted in accordance with Section 7 hereof. If an Item of Equipment is subject to an existing Purchase Agreement between Lessee and the Supplier, Lessee warrants that such

Item of Equipment has not been delivered to Lessee as of the date of the Equipment Schedule applicable thereto. If Lessee causes the Equipment to be modified or altered, or requests any additions thereto prior to the Rent Commencement Date, Lessee (a) acknowledges that any such modification, alteration or addition to an Item of Equipment may affect the Total Cost, taxes, purchase and renewal options (if any), Stipulated Loss Value and Rent with respect to such Item of Equipment, and (b) hereby authorizes Lessor to adjust such Total Cost, taxes, purchase and renewal options (if any), Stipulated Loss Value and Rent as appropriate. Lessee hereby authorizes Lessor to complete each Equipment Schedule with the serial numbers and other identification data of the Equipment Group associated therewith, as such data is received by Lessor.

7. DELIVERY AND ACCEPTANCE. Upon Lessee's acceptance for lease of any Equipment delivered to Lessee and described in any Equipment Schedule, Lessee shall execute and deliver to Lessor a Certificate of Acceptance. LESSOR SHALL HAVE NO OBLIGATION TO ADVANCE FUNDS FOR THE PURCHASE OF THE EQUIPMENT UNLESS AND UNTIL LESSOR SHALL HAVE RECEIVED A CERTIFICATE OF ACCEPTANCE RELATING THERETO EXECUTED BY LESSEE. Such Certificate of Acceptance shall constitute Lessee's acknowledgment that such Equipment (a) was received by Lessee, (b) is satisfactory to Lessee in all respects and is acceptable to Lessee for lease hereunder, (c) is suitable for Lessee's purposes, (d) is in good order, repair and condition, (e) has been installed and operates properly, and (f) is subject to all of the terms of this Lease (including, without limitation, Section 2 hereof).

8. TERM; SURVIVAL. With respect to any Item of Equipment, unless otherwise specified on an Equipment Schedule, the initial term of this Lease (the "Initial Term") shall commence on the date on which such Item of Equipment is delivered to Lessee, and, unless earlier terminated as provided herein, shall expire on the Initial Term Expiration Date for such Item of Equipment. With respect to an Item of Equipment, any renewal term of this Lease (individually, a "Renewal Term"), as contemplated hereby, shah commence immediately upon the expiration of the Initial Term or any prior Renewal Term, as the case may be, and, unless earlier terminated as provided herein, shall expire on the date on which the final payment of Rent is due and paid hereunder. Obligations of Lessee under the lease relating to Rent and other payment obligations, tax indemnification, general indemnification and return and maintenance of equipment, as applicable, shall survive the expiration, cancellation or other termination of the Term hereof.

9. RENT. Lessee shall pay the Rent set forth on the Equipment Schedule commencing on the Rent Commencement Date, and, unless otherwise set forth on such Equipment Schedule, on the same day of each payment period thereafter for the balance of the Term. Rent shall be due whether or not Lessee has received any notice that such payments are due. All Rent shall be paid to Lessor at its address set forth on the Equipment Schedule, or as otherwise directed by Lessor in writing.

10. LOCATION; INSPECTION; LABELS. The Equipment shall be delivered to the Equipment Location and shall not be removed therefrom without Lessor's prior written consent. Lessor shall have the right to enter upon the Equipment Location and inspect the Equipment at any reasonable time. Lessor may, with reasonable notice to Lessee, remove the Equipment if the Equipment is, in the opinion of Lessor, being used beyond its capacity or is in any manner improperly cared for, abused or misused. At Lessor's request, Lessee shall affix permanent labels

indicating Lessor's interest in the Equipment in a prominent place on the Equipment and shall keep such labels in good repair and condition.

11. USE; ALTERATIONS. Lessee shall use the Equipment lawfully and only in the manner for which it was designed and intended and so as to subject it only to ordinary wear and tear. Lessee shall comply with all Applicable Law. Lessee shall immediately notify Lessor in writing of any existing or threatened investigation, claim or action by any Governmental Authority in connection with any Applicable Law or Governmental Action which could adversely affect the Equipment or this Lease. Lessee, at its own expense, shall make such alterations, additions or modifications or improvements (each, a "Required Alteration") to the Equipment as may be required from time to time to meet the requirements of Applicable Law or Governmental Action. All such Required Alterations shall immediately, and without further act, be deemed to constitute

Items of Equipment and be fully subject to this Lease as if originally leased hereunder, and shall be free and clear of all Liens. Except as otherwise permitted herein, Lessee shall not make any alterations to the Equipment without Lessor's prior written consent.

12. REPAIRS AND MAINTENANCE. Lessee, at Lessee's own cost and expense, shall (a) keep the Equipment in good repair, good operating condition and working order and in compliance with the manufacturer's specifications and Lessee's standard practices (but with respect to the latter, in no event less than industry practices), and (b) to maintain, service and repair the Equipment as otherwise required herein. Lessee, at its own cost and expense and within a reasonable period of time, shall replace any part of any Item of Equipment that becomes unfit or unavailable for use from any cause, with a replacement part of the same manufacture, value, remaining useful life and utility as the replaced part immediately preceding the replacement (assuming that such replaced part was in the condition required by this Lease). Such replacement part shall immediately, and without further act, be deemed to constitute an Item of Equipment and be fully subject to this Lease as if originally leased hereunder, and shall be free and clear of all Liens.

13. RETURN OF EQUIPMENT. Upon the expiration (subject to Section 32 hereof and except as otherwise provided in an Equipment Schedule) or earlier termination of this Lease, Lessee, at its sole expense, shall assemble and return the Equipment to Lessor by delivering such Equipment F.A.S. or F.O.B. to such location or such carrier (packed for shipping) as Lessor shall specify. Lessee agrees that the Equipment, when returned, shall be in the condition required by Section 12 hereof. All components of the Equipment shall have been properly serviced, following the manufacturer's written operating and servicing procedures, such that the Equipment is eligible for a manufacturer's standard, full service maintenance contract without Lessor's incurring any expense to repair or rehabilitate the Equipment. If, in the opinion of Lessor, any Item of Equipment fails to meet the standards set forth above, Lessee agrees to pay on demand all costs and expenses incurred in connection with repairing such Item of Equipment and restoring it so as to meet such standards. If Lessee fails to return any Item of Equipment as required hereunder, then, all of Lessee's obligations under this Lease (including, without limitation, Lessee's obligation to pay Rent for such Item of Equipment at the rental then applicable under this Lease) shall continue in full force and effect until such Item of Equipment shall have been returned in the condition required hereunder.

14. EQUIPMENT UPGRADES/ATTACHMENTS. In addition to the requirements of Section 11 hereof, Lessee, at its own expense, may from time to time add or install upgrades or attachments (each an "Upgrade") to the Equipment during the Term; provided, that such Upgrades (a) are readily removable without causing material damage to the Equipment, (b) do not materially adversely affect the Fair Market Sale Value, the Fair Market Rental Value, residual value, productive capacity, utility or remaining useful life of the Equipment, and (c) do not cause such Equipment to become "limited use property" within the meaning of Revenue Procedure 76-30, 1976-2 C.B. 647 (or such other successor tax provision), as of the date of installation of such Upgrade. Any such Upgrades which can be removed without causing damage to or adversely affecting the condition of the Equipment, or reducing the Fair Market Sale Value, the Fair Market Rental Value, residual value, productive capacity, utility or remaining useful life of the Equipment shall remain the property of Lessee; and upon the expiration or earlier termination of this Lease and provided that no Event of Default exists, Lessee may, at its option, remove any such Upgrades and, upon such removal, shall restore the Equipment to the condition required hereunder.

15.SUBLEASE AND ASSIGNMENT. (a) WITHOUT LESSOR'S PRIOR WRITTEN CONSENT, LESSEE SHALL NOT (1) ASSIGN, TRANSFER, PLEDGE, HYPOTHECATE OR OTHERWISE DISPOSE OF THIS LEASE, THE EQUIPMENT OR ANY INTEREST THEREIN, OR (2) SUBLET OR LEND THE EQUIPMENT TO, OR PERMIT THE EQUIPMENT TO BE USED BY, ANYONE OTHER THAN LESSEE. (b) Lessor, at any time with or without notice to Lessee, may sell, transfer, assign and/or grant a security interest, in all or any part of Lessor's interest in this Lease, any Equipment Schedule or any Item of Equipment (each, a "Lessor Transfer"), provided that no such Lessor Transfer will increase Lessee's burdens or risks hereunder. In the event of a Lessor Transfer, any purchaser, transferee, assignee or secured party (each a "Lessor Assignee") shall, from the date of such Lessor Transfer, have all of Lessor's obligations hereunder and shall have and may exercise all of Lessor's rights hereunder with respect to the items to which any such Lessor Transfer relates, and LESSEE SHALL NOT ASSERT

AGAINST ANY SUCH LESSOR ASSIGNEE ANY DEFENSE, COUNTERCLAIM OR OFFSET THAT LESSEE MAY HAVE AGAINST LESSOR ARISING FROM ANY ACTIONS OR OMISSIONS OF OR BY THE LESSOR. Lessee acknowledges that no such sale, transfer, assignment and/or security interest will change Lessee's duties hereunder or increase its burdens or risks hereunder. Lessee agrees that upon written notice to Lessee of any such sale, transfer, assignment and/or security interest, Lessee shall acknowledge receipt thereof in writing and shall comply with the directions and demands of any such Lessor Assignee.

16. RISK OF LOSS; DAMAGE TO EQUIPMENT. (a) Lessee shall bear the entire risk of loss (including without limitation, theft, destruction, disappearance of or damage to any and all Items of Equipment ("Loss") from any cause whatsoever), whether or not insured against, during the Term hereof until the Equipment is returned to Lessor in accordance with Section 13 hereof. No Loss shall relieve Lessee of the obligation to pay Rent or of any other obligation under this Lease.

(b) In the event of Loss to any Item of Equipment, Lessee shall immediately notify Lessor of same, and at the option of Lessor, Lessee shall within thirty (30) days following such Loss: (1) place such Item of Equipment in good condition and repair, in accordance with the terms hereof; (2) replace such Item of Equipment with replacement equipment (acceptable to Lessor) in as good condition and repair, and with the same value, remaining useful economic life and utility, as such replaced Item of Equipment immediately preceding the Loss (assuming that such replaced Item of Equipment was in the condition required by this Lease), which replacement equipment shall immediately, and without further act, be deemed to constitute Items of Equipment and be fully subject to this Lease as if originally leased hereunder and shall be free and clear of all Liens; or (3) pay to Lessor the sum of (i) all Rent due and owing hereunder with respect to such Item of Equipment (at the time of such payment) plus (ii) the Stipulated Loss Value as of the Rent Payment Date next following the date of such Loss with respect to such Item of Equipment. Upon Lessor's receipt of the payment required under subsection (3) above, Lessee shall be entitled to Lessor's interest in such Item of Equipment, in its then condition and location, "as is" and "where is", without any warranties, express or implied and, as applicable, Lessor will file all necessary UCC forms releasing its interest in such Item of Equipment.

17. INSURANCE. (a) Lessee shall, at all times during the Term hereof (until the Equipment shall have been received by Lessor) and at Lessee's own cost and expense, maintain (1) insurance against all risks of physical loss or damage to the Equipment (which shall include theft and collision for Equipment consisting of motor vehicles, but shall not exclude loss resulting from flood or earthquake) in an amount not less than the greater of the full replacement value thereof or the Stipulated Loss Value thereof if applicable, and (2) commercial general liability insurance (including blanket contractual liability coverage and products liability coverage) for personal and bodily injury and property damage in an amount satisfactory to Lessor.

(b) All insurance policies required hereunder shall (1) require thirty (30) days' prior written notice of cancellation or material change in coverage to Lessor (any such cancellation or change, as applicable, not being effective until the thirtieth (30th) day after the giving of such notice); (2) name "KeyCorp and its subsidiaries and affiliated companies, including Key Corporate Capital Inc., their successors and assigns" as an additional insured under the public liability policies and name Lessor as joint loss payee under the property insurance policies related in any way to the Equipment leased hereunder; (3) not require contributions from other policies held by Lessor; (4) waive any right of subrogation against Lessor related in any way to the Equipment leased hereunder;

(5) in respect of any liability of Lessor, except for the insurers' salvage rights in the event of a loss, waive the right of such insurers to set-off, to counterclaim or to any other deduction, whether by attachment or otherwise, to the extent of any monies due Lessor under such policies; (6) not require that Lessor pay or be liable for any premiums with respect to such insurance covered thereby; (7) be in full force and effect throughout any geographical areas at any time traversed by any Item of Equipment; and (8) contain breach of warranty provisions providing that, in respect of the interests of Lessor in such policies, the insurance shall not be invalidated by any action or inaction of Lessee or any other person (other than Lessor) and shall insure Lessor regardless of any breach or violation of any warranty, declaration or condition contained in such policies by Lessee or by any other person (other than Lessor). Prior to the first date of delivery of any Item of Equipment hereunder, and

thereafter not less than 15 days prior to the expiration dates of the expiring policies theretofore delivered pursuant to this Section, Lessee shall deliver to Lessor a certificate of insurance (or in the case of blanket policies, certificates thereof issued by the insurers thereunder) for the insurance maintained pursuant to this Section.

18. GENERAL TAX INDEMNIFICATION. Lessee shall pay when due and shall indemnify and hold Lessor harmless from and against (on an after-tax basis) any and all taxes, fees, withholdings, levies, imposts, duties, assessments and charges of any kind and nature arising out of or related to this Lease (together with interest and penalties thereon and including, without limitation, sales, use, gross receipts, personal property, real property, real estate excise, ad valorem, business and occupational, franchise, value added, leasing, leasing use, documentary, stamp or other taxes) imposed upon or against Lessor, any Lessor Assignee, Lessee or any Item of Equipment by any Governmental Authority with respect to any Item of Equipment or the manufacturing, ordering, sale, purchase, shipment, delivery, acceptance or rejection, ownership, titling, registration, leasing, subleasing, possession, use, operation, removal, return or other dispossession thereof or upon the rents, receipts or earnings arising therefrom or upon or with respect to this Lease, excepting only all Federal, state and local taxes on or measured by Lessor's net income (other than income tax resulting from making any alterations, improvements, modifications, additions, upgrades, attachments, replacements or substitutions by Lessee made without consent of Lessor). Whenever this Lease terminates as to any Item of Equipment, Lessee shall, upon written request by Lessor and concurrence by Lessee, whose concurrence shall not be unreasonably withheld, advance to Lessor the amount estimated by Lessor to be the personal property or other taxes on said item which are not yet payable, but for which Lessee is responsible. Lessor shall, at Lessee's request, provide Lessee with Lessor's method of computation of any estimated taxes.

19. LESSOR'S RIGHT TO PERFORM FOR LESSEE. If Lessee fails to perform any of its obligations contained herein, Lessor may (but shall not be obligated to) perform such obligations, and the amount of the reasonable costs and expenses of Lessor incurred in connection with such performance, together with interest on such amount at the Default Rate, shall be payable by Lessee to Lessor upon demand. No such performance by Lessor shall be deemed a waiver of any rights or remedies of Lessor, or be deemed to cure the default of Lessee hereunder.

20. DELINQUENT PAYMENTS. If Lessee fails to pay any Rent or other sums under this Lease within five (5) days of the date when the same becomes due, Lessee shall pay to Lessor a late charge equal to the lesser of five percent (5%) of such delinquent amount or the maximum amount permitted under Applicable Law. Such late charge shall be payable by Lessee upon demand by Lessor and shall be deemed Rent hereunder.

21. PERSONAL PROPERTY; LIENS. Lessor and Lessee hereby agree that the Equipment is, and shall at all times remain, personal property notwithstanding the fact that any Item of Equipment may now be, or hereafter become, in any manner affixed or attached to real property or any improvements thereon. Lessee shall at all times keep the Equipment free and clear from all Liens. Lessee shall (a) give Lessor immediate written notice of any such Lien, (b) promptly, at Lessee's sole cost and expense, take such action as may be necessary to discharge any such Lien, and (c) indemnify and hold Lessor, on an after-tax basis, harmless from and against any loss or damage caused by any such Lien.

22. EVENTS OF DEFAULT; REMEDIES. (a) As used herein, the term "Event of Default" shall mean any of the following events: (1) Lessee fails to pay any Rent within ten (10) days after the same shall have become due; (2)

Lessee or any Guarantor becomes insolvent or makes an assignment for the benefit of its creditors; (3) a receiver, trustee, conservator or liquidator of Lessee or any Guarantor or of all or a substantial part of Lessee's or such Guarantor's assets is appointed with or without the application or consent of Lessee or such Guarantor, respectively; (4) a petition is filed by or against Lessee or any Guarantor under any bankruptcy, insolvency or similar legislation; (5) Lessee or any Guarantor violates or fails to perform any provision of either this Lease or any other loan, lease or credit agreement or any acquisition or purchase agreement with Lessor or any other party; (6) Lessee violates or fails to perform any covenant or representation made by Lessee herein; (7) any representation or warranty made herein or in any certificate, financial

statement or other statement furnished to Lessor (or Lessor's parent, subsidiaries or affiliates) shall prove to be false or misleading in any material respect as of the date on which the same was made; (8) Lessee makes a bulk transfer of furniture, furnishings, fixtures or other equipment or inventory; (9) there is a material adverse change in Lessee's or any Guarantor's financial condition since the first Rent Commencement Date of any Equipment Schedule executed in connection herewith; (10) Lessee merges or consolidates with any other corporation or entity, or sells, leases or disposes of all or substantially all of its assets without the prior written consent of Lessor, which consent shall not be unreasonably withheld; (11) a change in control occurs in Lessee or any Guarantor that adversely impacts the Lessee's or Guarantor's ability to perform its obligations hereunder; or (12) the death or dissolution of Lessee or any Guarantor. An Event of Default with respect to any Equipment Schedule hereunder shall, at Lessor's option, constitute an Event of Default for all Equipment Schedules hereunder and any other agreements between Lessor and Lessee.

(b) Upon the occurrence of an Event of Default, Lessor may do one or more of the following as Lessor in its sole discretion shall elect: (1) proceed by appropriate court action or actions, either at law or in equity, to enforce performance by Lessee of the applicable covenants of this Lease or to recover damages for the breach thereof; (2) sell any Item of Equipment at public or private sale and, Lessor shall apply to or offset any amounts received pursuant to such sale; (3) hold, keep idle or lease to others any Item of Equipment as Lessor in its sole discretion may determine and if leased, Lessor shall apply to or offset any amounts received pursuant to such lease; (4) by notice in writing to Lessee, cancel or terminate this Lease, without prejudice to any other remedies hereunder; (5) demand that Lessee, and Lessee shall, upon written demand of Lessor and at Lessee's expense forthwith return all Items of Equipment to Lessor in the manner and condition required by Section 13 hereof, provided, however, that Lessee shall remain and be liable to Lessor for any amounts provided for herein or other damages resulting from the Equipment not being in the condition required by Section 12 hereof, and otherwise in accordance with all of the provisions of this Lease, except those provisions relating to periods of notice; (6) enter upon the premises of Lessee or other premises where any Item of Equipment may be located and, without notice to Lessee and with or without legal process, take possession of and remove all or any such Items of Equipment without liability to Lessor by reason of such entry or taking possession, and without such action constituting a cancellation or termination of this Lease unless Lessor notifies Lessee in writing to such effect except Lessor shall apply to or offset any amounts if received from the sale, rents, lease or such Items of Equipment; (7) by written notice to Lessee specifying a payment date (the "Remedy Date"), demand that Lessee pay to Lessor, and Lessee shall pay to Lessor, on the Remedy Date, as liquidated damages for loss of a bargain and not as a penalty, any unpaid Rent due prior to the Remedy Date plus whichever of the following amounts Lessor, in its sole discretion, shall specify in such notice (together with interest on such amount at the Default Rate from the Remedy Date to the date of actual payment): (i) an amount, with respect to an Item of Equipment, equal to the Rent payable for such Item of Equipment for the remainder of the then current Term thereof, after discounting such Rent to present worth as of the Remedy Date on the basis of a per annum rate of discount equal to five percent (5%) from the respective dates upon which such Rent would have been paid had this Lease not been canceled or terminated; or (ii) the Stipulated Loss Value, computed as of the Remedy Date or, if the Remedy Date is not a Rent Payment Date, the Rent Payment Date next following the Remedy Date (provided, however, that, with respect to any proceeds actually received by Lessor for any Item of Equipment returned to or repossessed by Lessor, Lessor agrees that it shall first apply such proceeds to satisfy Lessee's obligation to pay the Stipulated Loss Value or, if Lessor has received payment in full of the Stipulated Loss Value from Lessee, Lessor shall remit such proceeds to Lessee (after first deducting any Lessor Expense) up to the amount of the Stipulated Loss Value; (8) cause Lessee, at its expense, to promptly assemble any and all Items of Equipment and return the same to Lessor at such place located within the United States as Lessor may designate in writing; and (9) exercise any other right or remedy

available to Lessor under Applicable Law or proceed by appropriate court action to enforce the terms hereof or to recover damages for the breach hereof or to rescind this Lease. In addition, Lessee shall be liable, except as otherwise provided above, for any and all unpaid Rent due hereunder before or during the exercise of any of the foregoing remedies, and for reasonable legal fees and

other costs and expenses incurred by reason of the occurrence of any Event of Default or the exercise of Lessor's remedies with respect thereto. If an Event of Default occurs, Lessee hereby agrees that ten (10) days prior notice to Lessee of (A) any public sale or (B) the time after which a private sale may be negotiated shall be conclusively deemed reasonable and, to the extent permitted by Applicable Law, Lessee waives all rights and defenses with respect to such disposition of the Equipment and, Lessor shall apply to or offset any amounts received from such sale. None of Lessor's rights or remedies hereunder are intended to be exclusive of, but each shall be cumulative and in addition to any other right or remedy referred to hereunder or otherwise available to Lessor at law or in equity, and no express or implied waiver by Lessor of any Event of Default shall constitute a waiver of any other Event of Default or a waiver of any of Lessor's rights.

23. NOTICES. All notices and other communications hereunder shall be in writing and shall be transmitted by hand, overnight courier or certified mail (return receipt requested), postage prepaid. Such notices and other communications shall be addressed to the respective party at the address set forth above or at such other address as any party may from time to time designate by notice duly given in accordance with this Section. Such notices and other communications shall be effective upon the earlier of receipt or three (3) days after mailing if mailed in accordance with the terms of this Section.

24. GENERAL INDEMNIFICATION. (a) Lessee shall pay, and shall indemnify and hold Lessor harmless on an after-tax basis from and against, any and all liabilities, causes of action, claims, suits, penalties, damages, losses, costs or expenses (including reasonable attorneys' fees), obligations, liabilities, demands and judgments, and Liens, of any nature whatsoever (collectively, a "Liability") arising out of or in any way related to: (1) the Lease Documents, (2) the manufacture, purchase, ownership, selection, acceptance, rejection, possession, lease, sublease, operation, use, maintenance, documenting, inspection, control, loss, damage, destruction, removal, storage, surrender, sale, use, condition, delivery, nondelivery, return or other disposition of or any other matter relating to any Item of Equipment or any part or portion thereof (including, in each case and without limitation, latent or other defects, whether or not discoverable, any claim for patent, trademark or copyright infringement) and any and all Liabilities in any way relating to or arising out of injury to persons, properties or the environment or any and all Liabilities based on strict liability in tort, negligence, breach of warranties or violations of any regulatory law or requirement, (3) a failure to comply fully with Applicable Law and (4) Lessee's failure to perform any covenant, or Lessee's breach of any representation or warranty, hereunder; provided, that the foregoing indemnity shall not extend to the Liabilities to the extent resulting solely from the gross negligence or willful misconduct of Lessor.

(b) Lessee shall promptly deliver to Lessor (1) copies of any documents received from the United States Environmental Protection Agency or any state, county or municipal environmental or health agency and (2) copies of any documents submitted by Lessee or any of its subsidiaries to the United States Environmental Protection Agency or to any state, county or municipal environmental or health agency concerning the Equipment or its operation.

25. SEVERABILITY; CAPTIONS. Any provision of this Lease or any Equipment Schedule which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability shall not invalidate or render unenforceable such provision in any other jurisdiction. Captions are intended for convenience or reference only, and shall not be construed to define, limit or describe the scope or intent of any provisions hereof.

26. LESSOR'S EXPENSE. Lessee shall pay all reasonable costs and expenses of Lessor, including, without limitation, reasonable attorneys' and other professional fees, the fees of any collection agencies and appraisers and all other costs and expenses related to any sale or re-lease of the Equipment (including storage costs), incurred by

Lessor in enforcing any of the terms, conditions or provisions hereof or in protecting Lessor's rights hereunder (each a "Lessor Expense").

27. RELATED EQUIPMENT SCHEDULES. In the event that any Item of Equipment covered

under any Equipment Schedule hereunder may become attached or affixed to, or used in connection with, Equipment covered under another Equipment Schedule hereunder (a "Related Equipment Schedule"), Lessee agrees that, if Lessee elects to exercise a purchase or renewal option under any such Equipment Schedule, or if Lessee elects to return the Equipment under any such Equipment Schedule pursuant to Section 13 hereof, then Lessor, in its sole discretion, may require that all Equipment leased under all Related Equipment Schedules be similarly disposed of.

28. FINANCIAL AND OTHER DATA. During the Term hereof, Lessee shall furnish Lessor (a) as soon as available, and in any event within 120 days after the last day of each fiscal year, financial statements of Lessee and each Guarantor and (b) from time to time as Lessor may reasonably request, other financial reports, information or data (including federal and state income tax returns) and quarterly or interim financial statements of Lessee and each Guarantor. All annual information shall be audited by an independent certified public accountant.

29. [RESERVED]

30. [RESERVED]

31. REPRESENTATIONS AND WARRANTIES OF LESSEE. Lessee represents and warrants that: (a) Lessee is a corporation duly organized and validly existing in good standing under the laws of the state of its incorporation; (b) the execution, delivery and performance of this Lease and all related instruments and documents: (1) have been duly authorized by all necessary corporate action on the part of Lessee, (2) do not require the approval of any stockholder, partner, trustee, or holder of any obligations of Lessee except such as have been duly obtained, and (3) do not and will not contravene any law, governmental rule, regulation or order now binding on Lessee, or the charter or by-laws of Lessee, or contravene the provisions of, or constitute a default under, or result in the creation of any lien or encumbrance upon the property of Lessee under, any indenture, mortgage, contract or other agreement to which Lessee is a party or by which it or its property is bound; (c) the Lease Documents, when entered into, will constitute legal, valid and binding obligations of Lessee enforceable against Lessee in accordance with the terms thereof; (d) there are no actions or proceedings to which Lessee is a party, and there are no other threatened actions or proceedings of which Lessee has knowledge, before any Governmental Authority, which, either individually or in the aggregate, would adversely affect the financial condition of Lessee, or the ability of Lessee to perform its obligations hereunder; (e) Lessee is not in default under any obligation for the payment of borrowed money, for the deferred purchase price of property or for the payment of any rent under any lease agreement which, either individually or in the aggregate, would have the same such effect; (f) under the laws of the state(s) in which the Equipment is to be located, the Equipment consists solely of personal property and not fixtures; (g) the financial statements of Lessee (copies of which have been furnished to Lessor) have been prepared in accordance with generally acceptable accounting principles consistently applied ("GAAP"), and fairly present Lessee's financial condition and the results of its operations as of the date of and for the period covered by such statements, and since the date of such statements there has been no material adverse change in such conditions or operations; (h) the address stated above is the chief place of business and chief executive office, or in the case of individuals, the primary residence, of Lessee; (i) Lessee does not conduct business under a trade, assumed or fictitious name except as set forth in the attached Appendix A; (j) the Equipment is being leased hereunder solely for business purposes and that no item of Equipment will be used for personal, family or household purposes; and (k) except as previously disclosed in writing to Lessor, neither Lessee nor any of its officers or directors (if a corporation), partners (if a partnership) or members (if a limited liability company) has, directly or indirectly, any financial interest in the Supplier.

32. RENEWAL AND PURCHASE OPTIONS. With respect to an Equipment Schedule and the Equipment Group set forth thereon, Lessee shall have the purchase and renewal options set forth in such Equipment Schedule.

33. LESSEE'S WAIVERS. TO THE EXTENT PERMITTED BY APPLICABLE LAW, LESSEE (a) WAIVES ANY AND ALL RIGHTS AND REMEDIES CONFERRED UPON A LESSEE BY SECTIONS 2A-508 THROUGH 2A-522 OF THE UNIFORM COMMERCIAL CODE AND (b) ANY RIGHTS NOW OR HEREAFTER CONFERRED BY STATUTE OR OTHERWISE TO RECOVER INCIDENTAL OR

CONSEQUENTIAL DAMAGES FROM LESSOR FOR ANY BREACH OF WARRANTY OR FOR ANY OTHER REASON OR TO SETOFF OR DEDUCT ALL OR ANY PART OF ANY CLAIMED DAMAGES RESULTING FROM LESSOR'S DEFAULT, IF ANY, UNDER THIS LEASE PROVIDED, HOWEVER, THAT NO SUCH WAIVER SHALL PRECLUDE LESSEE FROM ASSERTING ANY SUCH CLAIM AGAINST LESSOR IN A SEPARATE CAUSE OF ACTION INCLUDING ANY CLAIM ARISING AS A RESULT OF LESSOR'S BREACH OF SECTION 38 HEREOF.

34. UCC FILINGS. LESSEE HEREBY APPOINTS LESSOR OR ITS ASSIGNEE AS ITS TRUE AND LAWFUL ATTORNEY IN FACT, IRREVOCABLY AND COUPLED WITH AN INTEREST, TO EXECUTE AND FILE ON BEHALF OF LESSEE ALL UCC FINANCING STATEMENTS WHICH IN LESSOR'S SOLE DISCRETION ARE DEEMED NECESSARY OR PROPER TO SECURE LESSOR'S INTEREST IN THE EQUIPMENT IN ALL APPLICABLE JURISDICTIONS. Lessee hereby ratifies, to the extent permitted by law, all that Lessor shall lawfully and in good faith do or cause to be done by reason of and in compliance with this paragraph.

35. MISCELLANEOUS. Time is of the essence with respect to this Lease. ANY FAILURE OF LESSOR TO REQUIRE STRICT PERFORMANCE BY LESSEE OR ANY WAIVER BY LESSOR OF ANY PROVISION HEREIN SHALL NOT BE CONSTRUED AS A CONSENT OR WAIVER OF ANY PROVISION OF THIS LEASE. This Lease and each Equipment Schedule shall be binding upon, and inure to the benefit of, the parties hereto, their permitted successors and assigns. This Lease will be binding upon Lessor only if executed by a duly authorized officer or representative of Lessor at Lessor's address set forth above. The Lease Documents shall be executed on Lessee's behalf by an Authorized Signer of Lessee. THIS LEASE IS BEING DELIVERED IN THE STATE OF NEW YORK AND SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK, INCLUDING ALL MATTERS OF CONSTRUCTION, VALIDITY AND PERFORMANCE WITHOUT GIVING EFFECT TO ANY CHOICE OF LAW OR CONFLICT OF LAWS PROVISION OR RULE (WHETHER OF THE STATE OF NEW YORK OR ANY OTHER JURISDICTION) THAT WOULD CAUSE THE APPLICATION OF THE LAWS OF ANY JURISDICTION OTHER THAN THE STATE OF NEW YORK.

36. JURY TRIAL WAIVER. LESSOR AND LESSEE HEREBY EACH WAIVE THEIR RESPECTIVE RIGHTS TO TRIAL BY JURY OF ANY CLAIM OR CAUSE OF ACTION BASED UPON OR ARISING OUT OF OR RELATED TO THE LEASE, THE LEASE DOCUMENTS OR THE TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY, IN ANY ACTION OR PROCEEDING TO WHICH LESSOR OR LESSEE MAY BE PARTIES, WHETHER WITH RESPECT TO CONTRACT CLAIMS, TORT CLAIMS, OR OTHERWISE. LESSEE AND LESSOR AGREE THAT THEIR RESPECTIVE RIGHT TO JURY TRIAL IS WAIVED AS TO ANY ACTION, COUNTERCLAIM OR OTHER PROCEEDING WHICH SEEKS, IN WHOLE OR IN PART, TO CHALLENGE THE VALIDITY OR ENFORCEABILITY, OF THIS AGREEMENT OR THE OTHER LEASE DOCUMENTS OR ANY PROVISION HEREOF OR THEREOF. THIS WAIVER IS MADE KNOWINGLY, WILLINGLY AND VOLUNTARILY BY LESSOR AND LESSEE WHO EACH ACKNOWLEDGE THAT NO REPRESENTATIONS HAVE BEEN MADE BY ANY INDIVIDUAL TO INDUCE THIS WAIVER OF TRIAL BY JURY OR IN ANY WAY TO MODIFY OR NULLIFY ITS EFFECT. THIS WAIVER SHALL APPLY TO ANY SUBSEQUENT AMENDMENTS, RENEWALS, SUPPLEMENTS OR MODIFICATIONS TO THE LEASE AND THE LEASE DOCUMENTS.

37. MORE THAN ONE LESSEE. If more than one person or entity executes the Lease Documents as "Lessee," the obligations of "Lessee" contained herein and therein shall be deemed joint and several and all references to "Lessee" shah apply both individually and jointly.

38. QUIET ENJOYMENT. So long as no Default or Event of Default has occurred and is continuing, Lessee shall peaceably hold and quietly enjoy the Equipment without interruption by Lessor or any person or entity claiming through Lessor.

39. ENTIRE AGREEMENT. This Lease, together with all other Lease Documents constitute the entire understanding or agreement between Lessor and Lessee with respect to the leasing of the Equipment, and there is no understanding or agreement, oral or written, which is not set forth herein or therein. Neither this Lease nor any Equipment Schedule may be amended except by a writing signed by Lessor and Lessee.

Lessee's Initials: /s/ RJK

40. EXECUTION IN COUNTERPARTS. This Master Equipment Lease Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

IN WITNESS WHEREOF, Lessor and Lessee have executed this Lease as of the day and year first above written.

LESSOR:	LESSEE:
KEYCORP LEASING, A DIVISION OF KEY CORPORATE CAPITAL INC.	SYNAPTICS INCORPORATED
By: /s/ Ronald M. Bruzdzinski Jr.	By: /s/ R. J. Knittel
Name: Ronald M. Bruzdzinski Jr. Title: Regional Lease Contract Manager	Name: R. J. Knittel Title: CFO

13

APPENDIX A

SYNAPTICS UK LTD

SYNAPTICS TAIWAN

14

Customer Number: 33141
Lease Number: 33143
Lessee Number: 8800020138

EQUIPMENT SCHEDULE NO. 01

STANDARD CSA

EQUIPMENT SCHEDULE NO. 01 dated as of November 28, 2000 (this "Schedule") between KEYCORP LEASING, A DIVISION OF KEY CORPORATE CAPITAL INC. ("Lessor"), and SYNAPTICS INCORPORATED, a California corporation ("Lessee").

I N T R O D U C T I O N:

Lessor and Lessee have heretofore entered into that certain Master Equipment Lease Agreement dated as of November 28, 2000 (the "Master Lease"; the Master Lease and this Schedule are hereinafter collectively referred to as, this "Lease"). Unless otherwise defined herein, capitalized terms used herein shall have the meanings specified in the Master Lease. The Master Lease provides for the execution and delivery of a Schedule substantially in the form hereof for the purpose of confirming the acceptance and lease of the Equipment under this Lease as and when this Lease is delivered by Lessor to Lessee in accordance with the terms thereof and hereof.

NOW, THEREFORE, in consideration of the premises and other good and sufficient consideration, Lessor and Lessee hereby agree as follows:

1. EQUIPMENT. Pursuant to the terms and conditions of this Lease, Lessor hereby leases to Lessee, and Lessee hereby leases from Lessor, the equipment listed on Exhibit A attached hereto (the "Equipment"). The aggregate Total Cost of such Equipment is $499,030.24.

2. TERM. The Initial Term of this Lease with respect to the Equipment described on this Schedule shall commence on the date on which Lessor disburses funds to Lessee in the amount specified on this schedule, and, unless earlier terminated as provided herein, shall expire on a date which is thirty six (36) months after the Rent Commencement Date (the "Initial Term Expiration Date").

3. RENT PAYMENT DATES; RENT. Lessee hereby agrees to pay Rent for the Equipment throughout the Initial Term in thirty six (36) consecutive monthly installments payable in advance on the Rent Commencement Date and on the same day each month thereafter (each, a "Rent Payment Date"). Each such installment of Rent shall be in an amount equal to $15,646.69.

4. EQUIPMENT LOCATION; BILLING ADDRESS. The Equipment described on this Schedule shall be located at, and except as otherwise provided in this Lease, shall not be removed from, the following address: 2381 Bering, San Jose, CA 95134. The billing address of Lessee is as follows: SYNAPTICS INCORPORATED, 2381 Bering, San Jose, CA 95134.

5. LESSEE'S PURCHASE, RENEWAL AND OPTION TERMS.

15

(a) Dollar Purchase Option. With respect to the Equipment described on this Schedule, Section 32 of the Master Lease ("Renewal and Purchase Options") is hereby deleted in its entirety and the following is substituted in its place:

> On the Initial Term Expiration Date and so long as no Default or Event of Default shall have occurred and be continuing, Lessee shall pay to Lessor an amount equal to $1.00. Upon payment in full by Lessee of all Rent (and all other sums) payable to Lessor hereunder, Lessor shall promptly release its interest in the Equipment and, as applicable, by filing all necessary UCC forms to affect such releases.

6. NATURE OF TRANSACTION; SECURITY AGREEMENT. (a) General. To secure the prompt payment and performance as and when due of all obligations and indebtedness of Lessee, now existing or hereafter created, to Lessor pursuant to this Lease or otherwise, Lessee hereby grants to Lessor a security interest in the Equipment and all accessions, substitutions and replacements thereto and therefor, and proceeds (cash and non-cash), including, without limitation, insurance proceeds thereof (but without power of sale). In furtherance of the foregoing, Lessee shall execute and deliver to Lessor, to be filed at Lessee's expense not to exceed ONE HUNDRED DOLLARS AND ZERO CENTS ($100.00), Uniform Commercial Code financing statements, statements of amendment and statements of continuation as reasonably may be required by Lessor to perfect and maintain perfected the security interest granted by Lessee herein.

(b) Personal Property Tax. Lessee recognizes that, pursuant to Section 18 of the Master Lease, it is Lessee's responsibility to pay any property tax bills. Lessor and Lessee acknowledge that personal property tax policies vary from state to state and that, where uncertainty exists as to a particular state's policies, Lessee shall contact its attorneys or financial advisors (who may be familiar with such state's personal property tax policy) for advice. Unless otherwise directed in writing by Lessor or otherwise required by Applicable Law, Lessee will list itself as owner of all Items of Equipment for property tax purposes and will promptly pay all such taxes when due. In those jurisdictions in which Lessor is required to list itself as owner of all such Items of Equipment, upon receipt by Lessee of any property tax bill pertaining to such Items of Equipment, Lessee will promptly forward to Lessor such property tax bill and related payment. Upon receipt by Lessor of any such property tax bill (whether from Lessee or directly from the taxing authority), Lessor will pay such tax and will invoice Lessee for the expense if Lessee has not submitted its payment with such bill. Upon receipt of said invoice (if any), Lessee shall promptly reimburse Lessor for such expense.

(c) Disclaimer. LESSEE HEREBY ACKNOWLEDGES THAT LESSOR HAS NOT MADE, AND HEREBY DISCLAIMS ANY ADVICE, REPRESENTATIONS, WARRANTIES AND COVENANTS, EITHER EXPRESSED OR IMPLIED, WITH RESPECT TO ANY LEGAL, ECONOMIC, ACCOUNTING, TAX OR OTHER EFFECTS OF THE LEASE AND THE TRANSACTION(S) CONTEMPLATED THEREBY, AND LESSEE HEREBY DISCLAIMS ANY RELIANCE ON ANY SUCH WARRANTIES, STATEMENTS OR REPRESENTATIONS MADE BY LESSOR WITH RESPECT THERETO.

7. STIPULATED LOSS VALUE; DISCOUNT RATE. (a) There are no Stipulated Loss Values or Stipulated Loss Value Supplements applicable to the Equipment described on this Schedule.

(b) Any provision of this Lease to the contrary notwithstanding, all present value calculations to be made with respect to the Equipment described on this Schedule shall be made using a discount rate equal to five percent (5%).

8. MODIFICATIONS TO MASTER LEASE. With respect to the Equipment described on this Schedule, the Master Lease shall be modified as follows:

(a) Section 6 of the Master Lease ("Ordering Equipment") is hereby deleted in its entirety and the following is substituted in its place:

16

Lessee has selected and ordered the Equipment from the Supplier and, if appropriate, has entered into a Purchase Agreement with respect thereto, Lessor may accept an assignment from Lessee of Lessee's rights, but none of Lessee's obligations, under any such Purchase Agreement. Lessee shall arrange for delivery of the Equipment so that it can be accepted in accordance with Section 7 hereof. If an Item of Equipment is subject to an existing Purchase Agreement between Lessee and the Supplier, Lessee warrants that such Item of Equipment has been delivered to Lessee as of the date of the Equipment Schedule applicable thereto. If Lessee causes the Equipment to be modified or altered, or requests any additions thereto prior to the Rent Commencement Date, Lessee (a) acknowledges that any such modification, alteration or addition to an Item of Equipment may affect the Total Cost, taxes, purchase and renewal options (if any), Stipulated Loss Value and Rent with respect to such Item of Equipment, and (b) hereby authorizes Lessor to adjust such Total Cost, taxes, purchase and renewal options (if any), Stipulated Loss Value and Rent as appropriate. Lessee hereby authorizes Lessor to complete each Equipment Schedule with the serial numbers and other identification data of the Equipment Group associated therewith, as such data is received by Lessor.

(b) Section 13 of the Master Lease is hereby deleted in its entirety and the following is substituted in its place:

[RESERVED]

(c) Section 16(b)(3) of the Master Lease is hereby deleted in its entirety and the following is substituted in its place:

pay to Lessor an amount, with respect to such Item of Equipment, equal to the Rent then due and owing for such Item of Equipment, plus the Rent payable for such Item of Equipment for the remainder of the Term, after discounting such Rent to present worth on the basis of a per annum rate of discount equal to five percent (5%) from the respective dates upon which such Rent would have been paid had the Loss or Damage not occurred.

(d) Section 17(a) of the Master Lease ("Insurance") is hereby amended to delete subsection "(1)" and substitute the following in its place:

insurance against all risks of physical loss or damage to the Equipment (including theft and collision for Equipment consisting of motor vehicles) in an amount not less than the full replacement cost thereof.

(e) Section 17(b) of the Master Lease ("Insurance") is hereby amended to delete subsection "(8)" and substitute the following in its place:

Prior to the first date of delivery of any Item of Equipment hereunder, and thereafter not less than 15 days prior to the expiration dates of the expiring policies theretofore delivered pursuant to this Section, Lessee shall deliver to Lessor a certificate of insurance (or in the case of blanket policies, certificates thereof issued by the insurers thereunder) for the insurance maintained pursuant to this Section.

(f) [RESERVED]

(g) Section 22(a) of the Master Lease ("Events of Default") is hereby amended to delete subsection "(5)" and substitute the following in its place:

Lessee or any Guarantor violates or fails to perform any provision of either this Lease or any other loan, lease or credit agreement or any acquisition or purchase agreement with Lessor, its parent, subsidiaries or affiliates

(h) Section 22(b) of the Master Lease ("Events of Default") is hereby amended to delete subsection "(7)" and substitute the following in its place:

by written notice to Lessee specifying a payment date (the "Remedy Date"), may demand that Lessee pay to Lessor, and Lessee shall pay to Lessor, on the Remedy Date, as liquidated damages for loss of a bargain and not as a penalty, any unpaid Rent due prior to the Remedy Date plus the following amount which Lessor shall specify in such notice (together with interest on such amount at the Default Rate from the Remedy Date to the date of actual payment): an amount, with respect to an Item of Equipment, equal to the Rent payable for such Item of Equipment for the remainder of the then current Term thereof, after discounting such Rent to present worth as of the Remedy Date on the basis of a per annum rate of discount equal to five percent (5%) from the respective dates upon which such Rent would have been paid had this Lease not been canceled or terminated.

(i) Section 31(j) of the Master Lease is hereby deleted in its entirety and the following is substituted in its place:

the Equipment is being leased hereunder solely for business purposes and that no item of Equipment will be used for personal, family or household purposes. Lessee allows its employees from time to time to use those items of equipment designated as laptop computers for limited personal use. This in no way alters the Lessee's intent to consider such equipment as being solely for business purposes; and

9. GOVERNING LAW. This Schedule is being delivered in the State of New York and shall be governed by, and construed in accordance with, the laws of the State of New York, including all matters of construction, validity and performance without giving effect to any choice of law or conflict of laws provision or rule (whether of the State of New York or any other jurisdiction) that would cause the application of the laws of any jurisdiction other than the State of New York.

10. COUNTERPARTS. This Schedule may be executed in any number of counterparts, each executed counterpart constituting an original but all together one and the same instrument.

11. MORE THAN ONE LESSEE. If more than one person or entity executes this Schedule, or any other Lease Documents executed in connection herewith, as "Lessee," the obligations of "Lessee" contained herein and therein shall be deemed joint and several and all references to "Lessee" shall apply both individually and jointly.

12. RELATIONSHIP TO MASTER LEASE; FURTHER ASSURANCES. This Schedule shall be construed in connection with and as part of this Lease, and all terms contained in the Master Lease are hereby incorporated herein by reference with the same force and effect as if such terms were fully stated herein. By execution of this Schedule, Lessee and Lessor reaffirm all terms of the Master Lease except as they may be modified hereby. To the extent that any of the terms of this Schedule are contrary to or inconsistent with any terms of the Master Lease, the terms of this Schedule shall govern. LESSEE HEREBY CERTIFIES TO LESSOR THAT THE REPRESENTATIONS AND WARRANTIES MADE BY LESSEE IN THE MASTER LEASE (INCLUDING, WITHOUT LIMITATION, SECTION 31 THEREOF) ARE TRUE AND CORRECT IN ALL MATERIAL RESPECTS AS OF THE DATE OF THIS SCHEDULE WITH THE SAME EFFECT AS THOUGH MADE ON AND AS OF SUCH DATE. Lessee, at Lessor's expense shall

take such additional actions and execute and deliver such additional documents as Lessor shall deem necessary from time to time to effectuate the terms of this Lease.

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13. POWER OF ATTORNEY. LESSEE HEREBY APPOINTS LESSOR OR ITS ASSIGNEE AS ITS TRUE AND LAWFUL ATTORNEY IN FACT, IRREVOCABLY AND COUPLED WITH AN INTEREST, TO EXECUTE AND FILE ON BEHALF OF LESSEE ALL UCC FINANCING STATEMENTS WHICH IN LESSOR'S SOLE DISCRETION ARE NECESSARY OR PROPER TO SECURE LESSOR'S INTEREST IN THE EQUIPMENT IN ALL APPLICABLE JURISDICTIONS. Lessee hereby ratifies, to the extent permitted by law, all that Lessor shall lawfully and in good faith do or cause to be done by reason of and in compliance with this paragraph.

IN WITNESS WHEREOF, Lessor and Lessee have caused this Schedule to be duly executed and delivered on the day and year first above written.

LESSOR:	LESSEE:
KEYCORP LEASING, A DIVISION OF KEY CORPORATE CAPITAL INC.	SYNAPTICS INCORPORATED
By: /s/ Ronald M. Bruzdzinski Jr.	By: /s/ R. J. Knittel
Name: Ronald M. Bruzdzinski Jr.	Name: R. J. Knittel
Title: Regional Lease Contract Manager	Title: CFO

COUNTERPART NO. 1 OF 1 SERIALLY NUMBERED MANUALLY EXECUTED COUNTERPARTS. TO THE EXTENT THAT THIS DOCUMENT CONSTITUTES CHATTEL PAPER UNDER THE UNIFORM COMMERCIAL CODE, NO SECURITY INTEREST MAY BE CREATED THROUGH THE TRANSFER AND POSSESSION OF ANY COUNTERPART OTHER THAN COUNTERPART NO. 1.

Customer Number: 33141
Lessee Number: 33143
Lessee Number: 8800020138

AMENDMENT NO. 01
TO EQUIPMENT SCHEDULE NO. 01

THIS AMENDMENT dated as of December 20, 2000 amends that certain Equipment Schedule No. 01 dated as of November 28, 2000 (the "Schedule") which incorporates by reference the Master Equipment Lease Agreement dated as of November 28, 2000 (the "Master Lease"), both between KEYCORP LEASING, A DIVISION OF KEY CORPORATE CAPITAL INC., as Lessor, and SYNAPTICS INCORPORATED, as Lessee. Unless otherwise specified herein, all capitalized terms shall have the meanings ascribed to them in the Master Lease.

Lessor and Lessee hereby agree that from and after the date hereof, the Schedule will be amended as follows:

MODIFICATIONS TO SCHEDULE:

1. Changes to Total Cost and Rent: (a) The last sentence of Section 1 ("Equipment") shall be deleted in its entirety and replaced with the following new sentence:

   The aggregate Total Cost of such Equipment is $499,030.24.

   (b) The last sentence of Section 3 ("Rent Payment Dates; Rent") shall be deleted in its entirety and replaced with the following new sentence:

   Each such installment of Rent shall be in an amount equal to $15,545.03.

EXCEPT AS MODIFIED HEREBY, ALL OF THE TERMS, COVENANTS AND CONDITIONS

OF THE MASTER LEASE AND THE SCHEDULE SHALL REMAIN IN FULL FORCE AND EFFECT AND ARE IN ALL RESPECTS HEREBY RATIFIED AND AFFIRMED.

IN WITNESS WHEREOF, Lessor and Lessee have executed this Amendment as of the date first above written.

LESSOR:	LESSEE:
KEYCORP LEASING, A DIVISION OF KEY CORPORATE CAPITAL INC.	SYNAPTICS INCORPORATED
By: /s/ Ronald M. Bruzdzinski Jr.	By: /s/ R. J. Knittel
Name: Ronald M. Bruzdzinski Jr.	Name: R. J. Knittel
Title: Regional Lease Contract Manager	Title: CFO

EXHIBIT 10.12

$1,500,000.00 August 12, 1997
San Jose, California

SYNAPTICS INCORPORATED

SUBORDINATED SECURED NON-RECOURSE PROMISSORY NOTE

For good and valuable consideration, the receipt of which is hereby acknowledge, SYNAPTICS INCORPORATED, a California corporation (the "Company"), promises to pay to the order of National Semiconductor Corporation (the "Holder"), the principal sum of One Million Five Hundred Thousand Dollars ($1,500,000.00), plus interest thereon, as set forth below, on the earliest to occur of (i) the tenth anniversary date of this Note, (ii) when declared due and payable by the Holder upon the occurrence of an Event of Default (as defined below), or (iii) upon the sale or liquidation by the Company of any shares of the capital stock of Foveonics, Inc. held by the Company to the extent of, but not exceeding, the amount of cash proceeds received by the Company upon each such sale or liquidation of Foveonics, Inc. capital stock.

The following is a statement of the rights of the Holder of this Note and the conditions to which this Note is subject:

1. Definitions. As used in this Note, the following temps, unless the context otherwise requires, have the following meanings:

1.1 "Company" shall mean Synaptics Incorporated, a California corporation, and shall include any corporation which shall succeed to or assume the obligations of the Company under this Note.

1.2 "Noteholder," "Holder," or similar terms, when the context refers to a holder of a note shall mean any person who shall at the time be the holder of this Note.

2. Interest. Interest shall accrue from the date of this Note on the unpaid principal amount at the rote of six percent (6%) per annum until paid, compounded annually.

3. Prepayment. The Company may prepay the principal of or interest on this Note at any time without premium or penalty.

4. Events of Default. If any of the events specified in this Section 4 shall occur (herein individually referred to as an "Event of Default"), the Holder of the Note may, so long as such condition exists, declare the entire principal and unpaid accrued interest hereon immediately due and payable, by notice in writing to the Company:

(i) Payment of principal or interest on this Note shall be delinquent for a period of 10 days or more and such delinquency has not been cured by the Company within five days after the Holder has given the Company written notice of such default; or

(ii) If the Company shall fail materially to observe any covenant or other provision contained in this Note (other than with respect to payment) and such failure of observance shall be continuing for 10 days after the Holder has given written notice thereof; or

(iii) The institution by the Company of proceedings to be adjudicated as bankrupt or insolvent, or the consent by it to institution of bankruptcy or insolvency proceedings against it or the filing by it of a petition or answer or consent seeking reorganization or release under the federal Bankruptcy Act, or any other applicable federal or state law, or the consent by it to the filing of any such petition or the appointment of a receiver, liquidator, assignee, trustee or other 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 taking of corporate action by the Company in furtherance of any such action; or

(iv) If, within 60 days after the commencement of an action against the Company (and service of process in connection therewith on the Company) seeking any bankruptcy, insolvency, reorganization, liquidation, dissolution or

similar relief under any present or future statute, law or regulation, such action shall not have been resolved in favor of the Company or all orders or proceedings thereunder affecting the operations or the business of the Company stayed, or if the stay of any such order or proceeding shall thereafter be set aside, or if, within 60 days after the appointment without the consent or acquiescence of the Company of any trustee, receiver or liquidator of the Company or of all or any substantial part of the properties of the Company, such appointment shall not have been vacated; or

(v) Any declared default of the Company under any Senior Indebtedness (as defined below) that gives the holder thereof the right to accelerate such Senior Indebtedness, and such Senior Indebtedness is in fact accelerated by the holder.

5. Subordination. The indebtedness evidenced by this Note is hereby expressly subordinated, to the extent and in the manner hereinafter set forth, in right of payment to the prior payment in full of all the Company's Senior Indebtedness, as hereinafter defined.

5.1 Senior Indebtedness. As used in this Note, the term "Senior Indebtedness" shall mean the principal of and unpaid accrued interest on (i) indebtedness of the Company or with respect to which the Company is a guarantor to banks, insurance companies, lease financing institutions or other financial institutions regularly engaged in the business of lending money, which is for money borrowed (or purchase or lease of equipment in the case of lease financing) by the Company (whether or not secured) in the ordinary course of business, and (ii) any such indebtedness or any debentures, notes or other evidence of indebtedness issued in exchange for such Senior Indebtedness, or any indebtedness arising from the satisfaction of such Senior Indebtedness by a guarantor.

5.2 Default on Senior Indebtedness. If there should occur any receivership, insolvency, assignment for the benefit of creditors, bankruptcy, reorganization or arrangements with creditors (whether or not pursuant to bankruptcy or other insolvency laws) sale of all or substantially all of the assets, dissolution, liquidation or any other marshaling of the assets and liabilities of the Company, or if this Note shall be declared due and payable upon the occurrence

of an event of default with respect to any Senior Indebtedness, then (i) no amount shall be paid by the Company in respect of the principal of or interest on this Note at the time outstanding, unless and until the principal of and interest on the Senior Indebtedness then outstanding shall be paid in full, except that the Holder shall have the right to proceed against and receive the Securities pledged by the Company as security for this Note pursuant to the Security Agreement between the Company and the Holder dated as of the same date as this Note, and (ii) no claim or proof of claim shall be filed with the Company by or on behalf of the Holder of this Note that shall assert any right to receive any payments in respect of the principal of and interest on this Note, except subject to the payment in full of the principal of and interest on all of the Senior Indebtedness then outstanding. If there occurs an event of default that has been declared in writing with respect to any Senior Indebtedness, or in the instrument under which any Senior Indebtedness is outstanding, permitting the holder of such Senior Indebtedness to accelerate the maturity thereof, then, unless and until such event of default shall have been cured or waived or shall have ceased to exist, or all Senior Indebtedness shall have been paid in full, no payment shall be made in respect of the principal of or interest on this Note, unless within 90 days after the happening of such event of default, the maturity of such Senior Indebtedness shall not have been accelerated.

5.3 Effect of Subordination. Subject to the rights, if any, of the holders of Senior Indebtedness under this Section 5 to receive cash, securities or other properties otherwise payable or deliverable to the Holder of this Note, nothing contained in this Section 5 shall impair, as between the Company and the Holder, the obligation of the Company, subject to the terms and conditions hereof, to pay to the Holder the principal hereof and interest hereon as and when the same become due and payable, or shall prevent the Holder of this Note, upon default hereunder, from exercising all rights, powers and remedies otherwise provided herein or by applicable law.

5.4 Subrogation. Subject to the payment in full of all Senior Indebtedness and until this Note shall be paid in full, the Holder shall be subrogated to the rights of the holders of Senior Indebtedness (to the extent of payments or distributions previously made to such holders of Senior Indebtedness pursuant to the provisions of Section 5 above) to receive payments or distributions of assets of the Company applicable to the Senior Indebtedness. No such payments or distributions applicable to the Senior Indebtedness shall, as between the Company and its creditors, other than the holders of Senior Indebtedness and the Holder, be deemed to be a payment by the Company to or on account of this Note; and for the purposes of such subrogation, no payments or distributions to the holders of Senior Indebtedness to which the Holder would be entitled except for the provisions of this Section 5 shall, as between the company and its creditors, other than the holders of Senior Indebtedness and the Holder, be deemed to be a payment by the Company to or on account of the Senior Indebtedness.

5.5 Undertaking. By its acceptance of this Note, the Holder agrees to execute and deliver such documents as may be reasonably requested from time to time by the Company or the lender of any Senior Indebtedness in order to implement the foregoing provisions of this Section 5.

6. Security Agreement. The Company will additionally execute and deliver the Security Agreement in the form attached hereto as Exhibit A (the "Security Agreement") as security for the Company's obligation to repay the principal amount and accrued interest on this Note.

7. Non-Recourse. If the Company fails to pay when due the principal of or interest on this Note, or otherwise fails to comply with any of the provisions of this Note, the Holder's sole remedy shall be to retain the Collateral (as defined in the Security Agreement), and the Company shall have no further obligation to the Holder under this Note or otherwise.

8. Miscellaneous.

8.1 The rights and remedies herein reserved to any party shall be cumulative and in addition to any other or further rights and remedies available at law or in equity. The waiver by any party hereto of any breach of any provision of this Note shall not be deemed to be a waiver of the breach of any other provision or any subsequent breach of the same provision.

8.2 This Note shall be governed by and construed in accordance with the laws of the State of California applicable to contracts entered into and wholly to be performed in the State of California by California residents.

8.3 This Note and its terms may be changed, waived or amended by the written consent of the Company and the Holder.

8.4 In case any provision contained herein (or part thereof) shall for any reason be held to be invalid, illegal, or unenforceable in any respect, such invalidity, illegality, or other unenforceability shall not affect any other provision (or the remaining part of the affected provision) hereof; but this Note shall be construed as if such invalid, illegal, or unenforceable provision (or part thereof) had never been contained herein, but only to the extent that such provision is invalid, illegal, or unenforceable.

8.5 Notices. Any notice or other communication required or permitted hereunder shall be in writing and shall be deemed to have been duly given on the date of service if served personally or by facsimile, or five days after the date of mailing if mailed, by first class mail, registered or certified, postage prepaid. Notices shall be addressed as follows:

To Holder at: National Semiconductor Corporation
2900 Semiconductor Drive
Santa Clara, CA 95051
Attention: General Counsel

To Company at: Synaptics Incorporated

2698 Orchard Parkway
San Jose, CA 95134
Attention: Federico Faggin

or to such other address as a party has designated by notice in writing to the other party in the manner provided by this Section. 8.5.

SIGNATURE PAGE FOLLOWS

The Company has caused this Note to be duly executed and delivered by its authorized officer as of the date first above written.

SYNAPTICS INCORPORATED

By: /s/ Federico Faggin

Name: Federico Faggin

Title: President

1

EXHIBIT 10.13

SYNAPTICS INCORPORATED

1996 STOCK OPTION PLAN

NOTICE OF STOCK OPTION GRANT

Federico Faggin

You have been granted an option to purchase Common Stock "Common Stock" of Synaptics Incorporated (the "Company") as follows:

Date of Grant:	((GrantDate))
Vesting Commencement Date:	((VestingCommenceDate))
Exercise Price per Share:	$((ExercisePrice))
Total Number of Shares Granted:	((NoofShares))
Total Exercise Price:	$((TotalExercisePrice))
Type of Option:	((ISO)) Incentive Stock Option
	((NSO)) Nonstatutory Stock Option
Term/Expiration Date:	((ExpirDate))
Vesting Schedule:	This Option may be exercised, in whole or in part, in accordance with the following schedule: 25% of the Shares subject to the Option shall vest on the twelve (12) month anniversary of the Vesting Commencement Date and 1/48th of the total number of Shares subject to the Option shall vest on the 1st of each month thereafter. In the event of a change in control, such shares shall immediately vest 50% of the unvested options granted.
Termination Period:	This Option may be exercised for 90 days after termination of employment or consulting relationship except as set out in Sections 6 and 7 of the Stock Option Agreement (but in no event later than the Expiration Date).

2

By your signature and the signature of the Company's representative below, you and the Company agree that this Option is granted under and governed by the terms and conditions of the 1996 Stock Option Plan and the Stock Option Agreement, both of which are attached and made a part of this document.

FEDERICO FAGGIN:	SYNAPTICS INCORPORATED
	By:
----------	----------
Signature	
	Francis Lee, President
----------	----------
Print Name	(Print Name and Title)

3

SYNAPTIC INCORPORATED

1996 STOCK OPTION PLAN

STOCK OPTION AGREEMENT

1. GRANT OF OPTION. Synaptics Incorporated, a California corporation (the "Company"), hereby grants to Federico Faggin ("Optionee"), an option (the "Option") to purchase a total number of shares of Common Stock (the "Shares") set forth in the Notice of Stock Option Grant, at the exercise price per share set forth in the Notice of Stock Option Grant (the "Exercise Price") subject to the terms, definitions and provisions of the Synaptics Incorporated 1996 Stock Option Plan (the "Plan") adopted by the Company, which is incorporated herein by reference. Unless otherwise defined herein, the terms defined in the Plan shall have the same defined meanings in this Option.

If designated an Incentive Stock Option, this Option is intended to qualify as an Incentive Stock Option as defined in Section 422 of the Code.

2. EXERCISE OF OPTION. This Option shall be exercisable during its Term in accordance with the Vesting Schedule set out in the Notice of Stock Option Grant and with the provisions of Section 9 of the Plan as follows:

(a) RIGHT TO EXERCISE.

(i) This Option may not be exercised for a fraction of a share.

(ii) In the event of Optionee's death, disability or other termination of employment, the exercisability of the Option is governed by Sections 5, 6 and 7 below, subject to the limitation contained in Section 2(a)(i).

(iii) In no event may this Option be exercised after the Expiration Date of this Option as set forth in the Notice of Stock Option Grant.

(b) METHOD OF EXERCISE. This Option shall be exercisable by execution and delivery of the Exercise Notice and Restricted Stock Purchase Agreement attached hereto as Exhibit A (the "Exercise Agreement") or of any other form of written notice approved for such purpose by the Company which shall state the election to exercise the Option, the number of Shares in respect of which the Option is being exercised, and such other representations and agreements as to the holder's investment intent with respect to such shares of Common Stock as may be required by the Company pursuant to the provisions of the Plan. Such written notice shall be signed by Optionee and shall be delivered in person or by certified mail to the Secretary of the Company. The written notice shall be accompanied by payment of the Exercise Price. This Option shall be deemed to be exercised upon receipt by the Company of such written notice accompanied by the Exercise Price.

No Shares will be issued pursuant to the exercise of an Option unless such issuance and such exercise shall comply with all relevant provisions of applicable law and the requirements of any stock exchange upon which the Shares may then be listed. Assuming such compliance, for income tax purposes the Shares shall be considered transferred to Optionee on the date on which the Option is exercised with respect to such Shares.

3. METHOD OF PAYMENT. Payment of the Exercise Price shall be by any of the following, or a combination thereof, at the election of Optionee:

(a) cash;

(b) check;

(c) surrender of other shares of Common Stock of the Company which (i) in the case of Shares acquired pursuant to the exercise of a Company option, have been owned by Optionee for more than six months on the date of surrender, and (ii) have a Fair Market Value on the date of surrender equal to the Exercise Price of the Shares as to which the Option is being exercised;

(d) if there is a public market for the Shares and they are registered under the Exchange Act, delivery of a properly executed exercise notice together with irrevocable instructions to a broker to deliver promptly to the Company the amount of sale or loan proceeds required to pay the Exercise Price; or

(e) a promissory note.

4. RESTRICTIONS ON EXERCISE. This Option may not be exercised until such time as the Plan has been approved by the shareholders of the Company, or if the issuance of such Shares upon such exercise or the method of payment of consideration for such shares would constitute a violation of any applicable federal or state securities or other law or regulation, including any rule under Part 207 of Title 12 of the Code of Federal Regulations as promulgated by the Federal Reserve Board. As a condition to the exercise of this Option, the Company may require Optionee to make any representation and warranty to the Company as may be required by any applicable law or regulation.

5. TERMINATION OF RELATIONSHIP. In the event of termination of Optionee's Continuous Status as an Employee or Consultant, Optionee may, to the extent otherwise so entitled at the date of such termination (the "Termination Date"), exercise this Option during the Termination Period set forth in the Notice of Stock Option Grant. To the extent that Optionee was not entitled to exercise this Option at such Termination Date, or if Optionee does not exercise this Option within the Termination Period, the Option shall terminate.

6. DISABILITY OF OPTIONEE.

(a) Notwithstanding the provisions of Section 5 above, in the event of termination of Optionee's Continuous Status as an Employee or Consultant as a result of

Optionee's total and permanent disability (as defined in Section 22(e)(3) of the Code), Optionee may, but only within twelve months from the Termination Date (but in no event later than the Expiration Date set forth in the Notice of Stock Option Grant), exercise this Option to the extent Optionee was entitled to exercise it as of such Termination Date. To the extent that Optionee was not entitled to exercise the Option as of the Termination Date, or if Optionee does not exercise such Option (to the extent so entitled) within the time specified in this Section 6(a), the Option shall terminate.

(b) Notwithstanding the provisions of Section 5 above, in the event of termination of Optionee's consulting relationship or Continuous Status as an Employee as a result of disability not constituting a total and permanent disability (as set forth in Section 22(e)(3) of the Code), Optionee may, but only within six months from the Termination Date (but in no event later than the Expiration Date set forth in the Notice of Stock Option Grant), exercise the Option to the extent Optionee was entitled to exercise it as of such Termination Date; provided, however, that if this is an Incentive Stock Option and Optionee fails to exercise this Incentive Stock Option within three months from the Termination Date, this Option will cease to qualify as an Incentive Stock Option (as defined in Section 422 of the Code) and Optionee will be treated for federal income tax purposes as having received ordinary income at the time of such exercise in an amount generally measured by the difference between the Exercise Price for the Shares and the Fair Market Value of the Shares on the date of exercise. To the extent that Optionee was not entitled to exercise the Option at the Termination Date, or if Optionee does not exercise such Option to the extent so entitled within the time specified in this Section 6(b), the Option shall terminate.

7. DEATH OF OPTIONEE. In the event of the death of Optionee (a) during the Term of this Option and while an Employee or Consultant of the Company and having been in Continuous Status as an Employee or Consultant since the date of grant of the Option, or (b) within 30 days after Optionee's Termination Date, the Option may be exercised at any time within six months following the date of death (but in no event later than the Expiration Date set forth in the Notice of Stock Option Grant), by Optionee's estate or by a person who acquired the right to exercise the Option by bequest or inheritance, but only to the extent of the right to exercise that had accrued at the Termination Date.

8. NON-TRANSFERABILITY OF OPTION. This Option may not be transferred in any manner otherwise than by will or by the laws of descent or distribution and may be exercised during the lifetime of Optionee only by him or her. The terms of this Option shall be binding upon the executors, administrators, heirs, successors and assigns of Optionee.

9. TERM OF OPTION. This Option may be exercised only within the Term set forth in the Notice of Stock Option Grant, subject to the limitations set

forth in Section 7 of the Plan.

10. TAX CONSEQUENCES. Set forth below is a brief summary as of the date of this Option of certain of the federal and California tax consequences of exercise of this Option and disposition of the Shares under the laws in effect as of the Date of Grant. THIS SUMMARY IS NECESSARILY INCOMPLETE, AND THE TAX LAWS AND REGULATIONS ARE

SUBJECT TO CHANGE. OPTIONEE SHOULD CONSULT A TAX ADVISER BEFORE EXERCISING THIS OPTION OR DISPOSING OF THE SHARES.

(a) EXERCISE OF INCENTIVE STOCK OPTION. If this Option qualifies as an Incentive Stock Option, there will be no regular federal or California income tax liability upon the exercise of the Option, although the excess, if any, of the Fair Market Value of the Shares on the date of exercise over the Exercise Price will be treated as an adjustment to the alternative minimum tax for federal tax purposes and may subject Optionee to the alternative minimum tax in the year of exercise.

(b) EXERCISE OF NONSTATUTORY STOCK OPTION. If this Option does not qualify as an Incentive Stock Option, there may be a regular federal income tax liability and a California income tax liability upon the exercise of the Option. Optionee will be treated as having received compensation income (taxable at ordinary income tax rates) equal to the excess, if any, of the Fair Market Value of the Shares on the date of exercise over the Exercise Price. If Optionee is an employee, the Company will be required to withhold from Optionee's compensation or collect from Optionee and pay to the applicable taxing authorities an amount equal to a percentage of this compensation income at the time of exercise.

(c) DISPOSITION OF SHARES. In the case of a Nonstatutory Stock Option, if Shares are held for at least one year, any gain realized on disposition of the Shares will be treated as long-term capital gain for federal and California income tax purposes. In the case of an Incentive Stock Option, if Shares transferred pursuant to the Option are held for at least one year after exercise and are disposed of at least two years after the Date of Grant, any gain realized on disposition of the Shares will also be treated as long-term capital gain for federal and California income tax purposes. In either case, the long-term capital gain will be taxed for federal income tax and alternative minimum tax purposes at a maximum rate of 28% if the Shares are held more than one year but less than 18 months after exercise and at 20% if the Shares are held more than 18 months after exercise. If Shares purchased under an Incentive Stock Option are disposed of within one year after exercise or within two years after the Date of Grant, any gain realized on such disposition will be treated as compensation income (taxable at ordinary income rates) to the extent of the difference between the Exercise Price and the lesser of (i) the Fair Market Value of the Shares on the date of exercise, or (ii) the sale price of the Shares.

(d) NOTICE OF DISQUALIFYING DISPOSITION OF INCENTIVE STOCK OPTION SHARES. If the Option granted to Optionee herein is an Incentive Stock Option, and if Optionee sells or otherwise disposes of any of the Shares acquired pursuant to the Incentive Stock Option on or before the later of (i) the date two years after the Date of Grant, or (ii) the date one year after the date of exercise, Optionee shall immediately notify the Company in writing of such disposition. Optionee acknowledges and agrees that he or she may be subject to income tax withholding by the Company on the compensation income recognized by Optionee from the early disposition by payment in cash or out of the current earnings paid to Optionee.

11. WITHHOLDING TAX OBLIGATIONS. Optionee understands that, upon exercising a Nonstatutory Stock Option, he or she will recognize income for tax purposes in an amount equal

to the excess of the then Fair Market Value of the Shares over the Exercise Price. However, the timing of this income recognition may be deferred for up to six months if Optionee is subject to Section 16 of the Exchange Act. If Optionee is an employee, the Company will be required to withhold from Optionee's

compensation, or collect from Optionee and pay to the applicable taxing authorities an amount equal to a percentage of this compensation income. Additionally, Optionee may at some point be required to satisfy tax withholding obligations with respect to the disqualifying disposition of an Incentive Stock Option. Optionee shall satisfy his or her tax withholding obligation arising upon the exercise of this Option by one or some combination of the following methods: (a) by cash payment, (b) out of Optionee's current compensation, (c) if permitted by the Administrator, in its discretion, by surrendering to the Company Shares which (i) in the case of Shares previously acquired from the Company, have been owned by Optionee for more than six months on the date of surrender, and (ii) have a Fair Market Value on the date of surrender equal to or greater than Optionee's marginal tax rate times the ordinary income recognized, or (d) by electing to have the Company withhold from the Shares to be issued upon exercise of the Option that number of Shares having a Fair Market Value equal to the amount required to be withheld. For this purpose, the Fair Market Value of the Shares to be withheld shall be determined on the date that the amount of tax to be withheld is to be determined (the "Tax Date").

If Optionee is subject to Section 16 of the Exchange Act (an "Insider"), any surrender of previously owned Shares to satisfy tax withholding obligations arising upon exercise of this Option must comply with the applicable provisions of Rule 16b-3 promulgated under the Exchange Act ("Rule 16b-3").

All elections by Optionee to have Shares withheld to satisfy tax withholding obligations shall be made in writing in a form acceptable to the Administrator and shall be subject to the following restrictions:

(a) the election must be made on or prior to the applicable Tax Date;

(b) once made, the election shall be irrevocable as to the particular Shares of the Option as to which the election is made; and

(c) all elections shall be subject to the consent or disapproval of the Administrator.

12. MARKET STANDOFF AGREEMENT. In connection with the initial public offering of the Company's securities and upon request of the Company or the underwriters managing such underwritten offering of the Company's securities, Optionee agrees not to sell, make any short sale of, loan, grant any option for the purchase of, or otherwise dispose of any securities of the Company (other than those included in the registration) without the prior written consent of the Company or such underwriters, as the case may be, for such period of time (not to exceed 180 days) from the effective date of such registration as may be requested by the Company or such managing underwriters and to execute an agreement reflecting the foregoing as may be requested by the underwriters at the time of the Company's initial public offering.

[Signature Page Follows]

This Agreement may be executed in two or more counterparts, each of which shall be deemed an original and all of which together shall constitute one document.

SYNAPTICS INCORPORATED

By:

Francis Lee, President

(Print name and title)

OPTIONEE ACKNOWLEDGES AND AGREES THAT THE VESTING OF SHARES PURSUANT TO THE OPTION HEREOF IS EARNED ONLY BY CONTINUING EMPLOYMENT OR CONSULTANCY AT THE WILL OF THE COMPANY (NOT THROUGH THE ACT OF BEING HIRED, BEING GRANTED THIS

OPTION OR ACQUIRING SHARES HEREUNDER). OPTIONEE FURTHER ACKNOWLEDGES AND AGREES THAT NOTHING IN THIS AGREEMENT, NOR IN THE COMPANY'S STOCK OPTION PLAN WHICH IS INCORPORATED HEREIN BY REFERENCE, SHALL CONFER UPON OPTIONEE ANY RIGHT WITH RESPECT TO CONTINUATION OF EMPLOYMENT OR CONSULTANCY BY THE COMPANY, NOR SHALL IT INTERFERE IN ANY WAY WITH OPTIONEE'S RIGHT OR THE COMPANY'S RIGHT TO TERMINATE OPTIONEE'S EMPLOYMENT OR CONSULTANCY AT ANY TIME, WITH OR WITHOUT CAUSE.

Optionee acknowledges receipt of a copy of the Plan and represents that he or she is familiar with the terms and provisions thereof, and hereby accepts this Option subject to all of the terms and provisions thereof. Optionee has reviewed the Plan and this Option in their entirety, has had an opportunity to obtain the advice of counsel prior to executing this Option and fully understands all provisions of the Option. Optionee hereby agrees to accept as binding, conclusive and final all decisions or interpretations of the Administrator upon any questions arising under the Plan or this Option.

Dated:

Federico Faggin

EXHIBIT 10.14

SYNAPTICS INCORPORATED

1996 STOCK OPTION PLAN

NOTICE OF STOCK OPTION GRANT

Francis Lee
505 Loch Lomond Ct.
Milpitas, CA 95035

You have been granted an option to purchase Common Stock ("Common Stock") of Synaptics Incorporated (the "Company") as follows:

Board Approval Date:	((Board Approval Date))
Date of Grant (Later of Board Approval Date or Commencement of Employment/Consulting):	((Grant Date))
Vesting Commencement Date:	((Vesting Commence Date))
Exercise Price Per Share:	$((Exercise Price))
Total Number of Shares Granted:	((NoofShares))
Total Exercise Price:	$((TotalExercisePrice))
Type of Option:	((ISO)) Incentive Stock Option ((NSO)) Nonstatutory Stock Option
Term/Expiration Date:	((ExpirDate))
Vesting Schedule:	This Option may be exercised, in whole or in part, in accordance with the following schedule and the Acceleration of Vesting Schedule below: Subject to the provisions of Section 2(a) below, 25% of the Total Number of Shares Granted shall become exercisable twelve months from the Vesting Commencement Date and 1/48th of the Total Number of Shares Granted shall become exercisable each month thereafter.
Acceleration of Vesting Schedule:	In the event Optionee's employment or consulting relationship with the Company is terminated without Cause (as defined below) within twelve (12) months following a Change of Control (as defined below), or Optionee terminates his employment or consulting relationship with the Company as a result of a Constructive Termination (as defined below) within twelve (12) months following a Change of Control, 50% of the Shares subject to the Option which have not already vested as of such date of termination shall vest and become exercisable. Notwithstanding the foregoing,

	in no event shall Optionee be entitled to exercise a number of shares under this Option in excess of the Total Number of Shares Granted set forth above.

Definitions:

For purposes of this Agreement, "Change of Control" means a sale of all or substantially all of the Company's assets, or any merger or consolidation of the Company with or into another corporation other than a merger or consolidation in which the holders of more than 50% of the shares of capital stock of the Company outstanding immediately prior to such transaction continue to hold (either by the voting securities remaining outstanding or by their being converted into voting securities of the surviving entity) more than 50% of the total voting power represented by the voting securities of the Company, or such surviving entity, outstanding immediately after such transaction.

For purposes of this Agreement, "Cause" for Optionee's termination of employment or consulting relationship will exist at any time after the happening of one or more of the following events: (i) Optionee's willful misconduct or gross negligence in performance of his duties hereunder, including Optionee's refusal to comply in any material respect with the legal directives of the Company's Board of Directors so long as such directives are not inconsistent with the Optionee's position and duties, and such refusal to comply is not remedied within ten (10) working days after written notice from the Board of Directors, which written notice shall state that failure to remedy such conduct may result in termination for Cause; (ii) Dishonest or fraudulent conduct, a deliberate attempt to do an injury to the Company, or conduct that materially discredits the Company or is materially detrimental to the reputation of the Company, including conviction of a felony; or (iii) Optionee's incurable material breach of any element of the Company's Confidential Information and Invention Assignment Agreement, including without limitation, Optionee's theft or other misappropriation of the Company's proprietary information.

For purposes of this Agreement, "Constructive Termination" shall be deemed to occur if (i) there is a material adverse change in Optionee's position causing such position to be of materially reduced stature or responsibility, (ii) a reduction of more than twenty five percent (25%) of Optionee's base compensation unless in connection with similar decreases of other similarly situated employees of the Company, or (iii)

Optionee's refusal to relocate to a facility or location more than fifty (50) miles from the Company's current location; and within the thirty (30) day period immediately following such material change or reduction Optionee elects to terminate his employment or consulting relationship voluntarily.

Termination Period:	This Option may be exercised for 30 days after termination of employment or consulting relationship except as set out in Sections 6 and 7 of the Stock Option Agreement (but in no event later than the Expiration Date).

By your signature and the signature of the Company's representative below, you and the Company agree that this Option is granted under and governed by the terms and conditions of the 1996 Stock Option Plan and the Stock Option Agreement, both of which are attached and made a part of this document.

FRANCIS LEE:	SYNAPTICS INCORPORATED:
_____	By: _____
Signature	

_____ _____
Print Name Print Name and Title

4

SYNAPTICS INCORPORATED

1996 STOCK OPTION PLAN

STOCK OPTION AGREEMENT

1. GRANT OF OPTION. Synaptics Incorporated, a California corporation (the "Company"), hereby grants to Francis Lee ("Optionee") an option (the "Option") to purchase a total number of shares of Common Stock (the "Shares") set forth in the Notice of Stock Option Grant, at the exercise price per share set forth in the Notice of Stock Option Grant (the "Exercise Price") subject to the terms, definitions and provisions of the Synaptics Incorporated 1996 Stock Option Plan (the "Plan") adopted by the Company, which is incorporated herein by reference. Unless otherwise defined herein, the terms defined in the Plan shall have the same defined meanings in this Option.

If designated an Incentive Stock Option, this Option is intended to qualify as an Incentive Stock Option as defined in Section 422 of the Code.

2. EXERCISE OF OPTION. This Option shall be exercisable during its Term in accordance with the Vesting Schedule set out in the Notice of Stock Option Grant and with the provisions of Section 9 of the Plan as follows:

(a) RIGHT TO EXERCISE.

(i) This Option may be exercised in whole or in part at any time after the Date of Grant as to Shares which have not yet vested under the vesting schedule indicated on the Notice of Stock Option Grant and in accordance with the following schedule: Up to ((NoofShares)) shares may be exercised as of the Date of Grant, up to an additional ((NoofShares)) shares (for a total of ((NoofShares)) shares) may be exercised as of ((Date)), and up to an additional ((NoofShares)) shares (for a total of ((NoofShares)) shares) may be exercised as of ((Date)) (which numbers shall include, in each case above, all shares which have vested as of such dates); provided, however, that Optionee shall execute as a condition to such exercise of this Option, the Early Exercise Notice and Restricted Stock Purchase Agreement attached hereto as Exhibit A (the "Early Exercise Agreement"). If Optionee chooses to exercise this Option solely as to Shares which have vested under the vesting schedule indicated on the Notice of Stock Option Grant, Optionee shall complete and execute the form of Exercise Notice and Restricted Stock Purchase Agreement attached hereto as Exhibit B (the "Exercise Agreement"). Notwithstanding the foregoing, the Company may in its discretion prescribe or accept a different form of notice of exercise and/or stock purchase agreement if such forms are otherwise consistent with this Agreement, the Plan and then-applicable law.

(ii) This Option may not be exercised for a fraction of a share.

(iii) In the event of Optionee's death, disability or other termination of employment or consulting relationship, the exercisability of the Option is governed by Sections 5, 6 and 7 below, subject to the limitation contained in Section 2(a)(iv) below.

5

(iv) In no event may this Option be exercised after the Expiration Date of this option as set forth in the Notice of Stock Option Grant.

(b) METHOD OF EXERCISE. This Option shall be exercisable by execution and delivery of the Early Exercise Agreement or the Exercise Agreement, whichever is applicable, or of any other written notice approved for such purpose by the Company which shall state the election to exercise the Option, the number of Shares in respect of which the Option is being exercised, and such other representations and agreements as to the holder's investment intent with respect to such shares of Common Stock as may be required by the

Company pursuant to the provisions of the Plan. Such written notice shall be signed by Optionee and shall be delivered in person or by certified mail to the Secretary of the Company. The written notice shall be accompanied by payment of the Exercise Price. This Option shall be deemed to be exercised upon receipt by the Company of such written notice accompanied by the Exercise Price.

No Shares will be issued pursuant to the exercise of an Option unless such issuance and such exercise shall comply with all relevant provisions of applicable law, including the requirements of any stock exchange upon which the Shares may then be listed. Assuming such compliance, for income tax purposes the Shares shall be considered transferred to Optionee on the date on which the Option is exercised with respect to such Shares.

3. METHOD OF PAYMENT. Payment of the Exercise Price shall be by any of the following, or a combination thereof, at the election of Optionee:

(a) cash;

(b) check;

(c) surrender of other shares of Common Stock of the Company which (i) in the case of Shares acquired pursuant to the exercise of a Company option, have been owned by Optionee for more than 6 months on the date of surrender, and (ii) have a Fair Market Value on the date of surrender equal to the Exercise Price of the Shares as to which the Option is being exercised;

(d) if there is a public market for the Shares and they are registered under the Exchange Act, delivery of a properly executed exercise notice together with irrevocable instructions to a broker to deliver promptly to the Company the amount of sale or loan proceeds required to pay the Exercise Price; or

(e) a promissory note in the form attached to this Agreement as Exhibit C, or in any other form approved by the Company.

4. RESTRICTIONS ON EXERCISE. This Option may not be exercised until such time as the Plan has been approved by the shareholders of the Company, or if the issuance of such Shares upon such exercise or the method of payment of consideration for such shares would constitute a violation of any applicable federal or state securities or other law or regulation, including any rule under Part 207 of Title 12 of the Code of Federal Regulations as promulgated by the Federal Reserve Board. As a condition to the exercise of this Option, the Company may

require Optionee to make any representation and warranty to the Company as may be required by any applicable law or regulation.

5. TERMINATION OF RELATIONSHIP. In the event of termination of Optionee's Continuous Status as an Employee or Consultant, Optionee may, to the extent otherwise so entitled at the date of such termination (the "Termination Date"), exercise this Option during the Termination Period set forth in the Notice of Stock Option Grant. To the extent that Optionee was not entitled to exercise this Option at such Termination Date, or if Optionee does not exercise this Option within the Termination Period, the Option shall terminate.

6. DISABILITY OF OPTIONEE.

(a) Notwithstanding the provisions of Section 5 above, in the event of termination of Optionee's Continuous Status as an Employee or Consultant as a result of his or her total and permanent disability (as defined in Section 22(e)(3) of the Code), Optionee may, but only within twelve months from the Termination Date (but in no event later than the Expiration Date set forth in the Notice of Stock Option Grant and in Section 9 below), exercise this Option to the extent he or she was entitled to exercise it at such Termination Date. To the extent that Optionee was not entitled to exercise the Option on the Termination Date, or if Optionee does not exercise such Option to the extent so entitled within the time specified in this Section 6(a), the Option shall terminate.

(b) Notwithstanding the provisions of Section 5 above, in the event of termination of Optionee's consulting relationship or Continuous Status as an Employee as a result of a disability not constituting a total and

permanent disability (as set forth in Section 22(e)(3) of the Code), Optionee may, but only within six months from the Termination Date (but in no event later than the Expiration Date set forth in the Notice of Stock Option Grant and in Section 9 below), exercise the Option to the extent Optionee was entitled to exercise it as of such Termination Date; provided, however, that if this is an Incentive Stock Option and Optionee fails to exercise this Incentive Stock Option within three months from the Termination Date, this Option will cease to qualify as an Incentive Stock Option (as defined in Section 422 of the Code) and Optionee will be treated for federal income tax purposes as having received ordinary income at the time of such exercise in an amount generally measured by the difference between the Exercise Price for the Shares and the Fair Market Value of the Shares on the date of exercise. To the extent that Optionee was not entitled to exercise the Option at the Termination Date, or if Optionee does not exercise such Option to the extent so entitled within the time specified in this Section 6(b), the Option shall terminate.

7. DEATH OF OPTIONEE. In the event of the death of Optionee (a) during the Term of this Option and while an Employee or Consultant of the Company and having been in Continuous Status as an Employee or Consultant since the date of grant of the Option, or (b) within 30 days after Optionee's Termination Date, the Option may be exercised at any time within six months following the date of death (but in no event later than the Expiration Date set forth in the Notice of Stock Option Grant and in Section 9 below), by Optionee's estate or by a person who acquired the right to exercise the Option by bequest or inheritance, but only to the extent of the right to exercise that had accrued at the Termination Date.

8. NON-TRANSFERABILITY OF OPTION. This Option may not be transferred in any manner otherwise than by will or by the laws of descent or distribution and may be exercised during the lifetime of Optionee only by him or her. The terms of this Option shall be binding upon the executors, administrators, heirs, successors and assigns of Optionee.

9. TERM OF OPTION. This Option may be exercised only within the Term set forth in the Notice of Stock Option Grant, subject to the limitations set forth in Section 7 of the Plan.

10. TAX CONSEQUENCES. Set forth below is a brief summary as of the date of this Option of certain of the federal and California tax consequences of exercise of this Option and disposition of the Shares under the laws in effect as of the Date of Grant. THIS SUMMARY IS NECESSARILY INCOMPLETE, AND THE TAX LAWS AND REGULATIONS ARE SUBJECT TO CHANGE. OPTIONEE SHOULD CONSULT A TAX ADVISER BEFORE EXERCISING THIS OPTION OR DISPOSING OF THE SHARES.

(a) EXERCISE OF INCENTIVE STOCK OPTION. If this Option qualifies as an Incentive Stock Option, there will be no regular federal or California income tax liability upon the exercise of the Option, although the excess, if any, of the Fair Market Value of the Shares on the date of exercise over the Exercise Price will be treated as an adjustment to the alternative minimum tax for federal tax purposes and may subject Optionee to the alternative minimum tax in the year of exercise.

(b) EXERCISE OF NONSTATUTORY STOCK OPTION. If this Option does not qualify as an Incentive Stock Option, there may be a regular federal income tax liability and a California income tax liability upon the exercise of the Option. Optionee will be treated as having received compensation income (taxable at ordinary income tax rates) equal to the excess, if any, of the Fair Market Value of the Shares on the date of exercise over the Exercise Price. If Optionee is an employee, the Company will be required to withhold from Optionee's compensation or collect from Optionee and pay to the applicable taxing authorities an amount equal to a percentage of this compensation income at the time of exercise.

(c) DISPOSITION OF SHARES. In the case of a Nonstatutory Stock Option, if Shares are held for at least one year, any gain realized on disposition of the Shares will be treated as long-term capital gain for federal and California income tax purposes. In the case of an Incentive Stock Option, if Shares transferred pursuant to the Option are held for at least one year after exercise and are disposed of at least two years after the Date of Grant, any gain realized on disposition of the Shares will also be treated as long-term capital gain for federal and California income tax purposes. In either case, the long-term capital gain will be taxed for federal income tax and alternative

minimum tax purposes at a maximum rate of 28% if the Shares are held more than one year but less than 18 months after exercise and at 20% if the Shares are held more than 18 months after exercise. If Shares purchased under an Incentive Stock Option are disposed of within one year after exercise or within two years after the Date of Grant, any gain realized on such disposition will be treated as compensation income (taxable at ordinary income rates) to the extent of the difference between the Exercise Price and the lesser of (i) the Fair Market Value of the Shares on the date of exercise, or (ii) the sale price of the Shares.

(d) NOTICE OF DISQUALIFYING DISPOSITION OF INCENTIVE STOCK OPTION SHARES. If the Option granted to Optionee herein is an Incentive Stock Option, and if Optionee sells or otherwise disposes of any of the Shares acquired pursuant to the Incentive Stock option on or before the later of (i) the date two years after the Date of Grant, or (ii) the date one year after the date of exercise, Optionee Shall immediately notify the Company in writing of such disposition. Optionee acknowledges and agrees that he or she may be subject to income tax withholding by the Company on the compensation income recognized by Optionee from the early disposition by payment in cash or out of the current earnings paid to Optionee.

11. WITHHOLDING TAX OBLIGATIONS. Optionee understands that, upon exercising a Nonstatutory Stock Option, he or she will recognize income for tax purposes in an amount equal to the excess of the then Fair Market Value of the Shares over the Exercise Price. However, the timing of this income recognition may be deferred for up to six months if Optionee is subject to Section 16 of the Exchange Act. If Optionee is an employee, the Company will be required to withhold from Optionee's compensation, or collect from Optionee and pay to the applicable taxing authorities an amount equal to a percentage of this compensation income. Additionally, Optionee may at some point be required to satisfy tax withholding obligations with respect to the disqualifying disposition of an Incentive Stock Option. Optionee shall satisfy his or her tax withholding obligation arising upon the exercise of this Option by one or some combination of the following methods: (a) by cash payment, (b) out of Optionee's current compensation, (c) if permitted by the Administrator, in its discretion, by surrendering to the Company Shares which (i) in the case of Shares previously acquired from the Company, have been owned by Optionee for more than six months on the date of surrender, and (ii) have a Fair Market Value on the date of surrender equal to or greater than Optionee's marginal tax rate times the ordinary income recognized, or (d) by electing to have the Company withhold from the Shares to be issued upon exercise of the Option that number of Shares having a Fair Market Value equal to the amount required to be withheld. For this purpose, the Fair Market Value of the Shares to be withheld shall be determined on the date that the amount of tax to be withheld is to be determined (the "Tax Date").

If Optionee is subject to Section 16 of the Exchange Act (an "Insider"), any surrender of previously owned Shares to satisfy tax withholding obligations arising upon exercise of this Option must comply with the applicable provisions of Rule 16b-3 promulgated under the Exchange Act ("Rule 16b-3").

All elections by Optionee to have Shares withheld to satisfy tax withholding obligations shall be made in writing in a form acceptable to the Administrator and shall be subject to the following restrictions:

(a) the election must be made on or prior to the applicable Tax Date;

(b) once made, the election shall be irrevocable as to the particular Shares of the Option as to which the election is made; and

(c) all elections shall be subject to the consent or disapproval of the Administrator.

12. MARKET STANDOFF AGREEMENT. In connection with the initial public offering of the Company's securities and upon request of the Company or the underwriters managing such underwritten offering of the Company's securities, Optionee agrees not to sell, make any short sale of, loan, grant any option for the purchase of, or otherwise dispose of any securities of the Company (other

than those included in the registration) without the prior written consent of the Company or such underwriters, as the case may be, for such period of time (not to exceed 180 days) from the effective date of such registration as may be requested by the Company or such managing underwriters and to execute an agreement reflecting the foregoing as may be requested by the underwriters at the time of the Company's initial public offering.

[Signature Page Follows]

This Agreement may be executed in two or more counterparts, each of which shall be deemed an original and all of which together shall constitute one document.

SYNAPTICS INCORPORATED

By: _____

Name: _____
(print)

Title: _____

OPTIONEE ACKNOWLEDGES AND AGREES THAT THE VESTING OF SHARES PURSUANT TO THE OPTION HEREOF IS EARNED ONLY BY CONTINUING CONSULTANCY OR EMPLOYMENT AT THE WILL OF THE COMPANY (NOT THROUGH THE ACT OF BEING HIRED, BEING GRANTED THIS OPTION OR ACQUIRING SHARES HEREUNDER). OPTIONEE FURTHER ACKNOWLEDGES AND AGREES THAT NOTHING IN THIS AGREEMENT, NOR IN THE COMPANY'S STOCK OPTION PLAN WHICH IS INCORPORATED HEREIN BY REFERENCE, SHALL CONFER UPON OPTIONEE ANY RIGHT WITH RESPECT TO CONTINUATION OF EMPLOYMENT OR CONSULTANCY BY THE COMPANY, NOR SHALL IT INTERFERE IN ANY WAY WITH OPTIONEE'S RIGHT OR THE COMPANY'S RIGHT TO TERMINATE OPTIONEE'S EMPLOYMENT OR CONSULTANCY AT ANY TIME, WITH OR WITHOUT CAUSE.

Optionee acknowledges receipt of a copy of the Plan and represents that he or she is familiar with the terms and provisions thereof, and hereby accepts this Option subject to all of the terms and provisions thereof. Optionee has reviewed the Plan and this Option in their entirety, has had an opportunity to obtain the advice of counsel prior to executing this Option and fully understands all provisions of the Option. Optionee hereby agrees to accept as binding, conclusive and final all decisions or interpretations of the Administrator upon any questions arising under the Plan or this Option.

Dated: _____ _____
Francis Lee

EXHIBIT 10.15

SYNAPTICS INCORPORATED

1996 STOCK OPTION PLAN

NOTICE OF STOCK OPTION GRANT

Russ Knittel
1420 Kring Way
Los Altos, CA 94024

You have been granted an option to purchase Common Stock ("Common Stock") of Synaptics Incorporated (the "Company") as follows:

Board Approval Date:	((Board Approval Date))
Date of Grant (Later of Board Approval Date or Commencement of Employment/Consulting):	((Grant Date))
Vesting Commencement Date:	((Vesting Commence Date))
Exercise Price Per Share:	$((Exercise Price))
Total Number of Shares Granted:	((No of Shares))
Total Exercise Price:	$((Total Exercise Price))
Type of Option:	((ISO)) Incentive Stock Option ((NSO)) Nonstatutory Stock Option
Term/Expiration Date:	((ExpirDate))
Vesting Schedule:	This Option may be exercised, in whole or in part, in accordance with Sock Option Agreement, the following schedule, and the Acceleration of Vesting Schedule below: 25% of the Total Number of Shares Granted shall vest twelve months from the Vesting Commencement Date and 1/48th of the Total Number of Shares Granted shall vest each month thereafter.
Acceleration of Vesting Schedule:	In the event Optionee's employment or consulting relationship with the Company is terminated without Cause (as defined below) within twelve (12) months following a Change

of Control (as defined below), or Optionee terminates his employment or consulting relationship with the Company as a result of a Constructive Termination (as defined below) within twelve (12) months following a Change of Control, 100% of the Shares subject to the Option which have not already vested as of such date of termination shall vest and become exercisable. Notwithstanding the foregoing,

in no event shall Optionee be entitled to exercise a number of shares under this Option in excess of the Total Number of Shares Granted set forth above.

Definitions:

For purposes of this Agreement, "Change of Control" means a sale of all or substantially all of the Company's assets, or any merger or consolidation of the Company with or into another corporation other than a merger or consolidation in which the holders of more than 50% of the shares of capital stock of the Company outstanding immediately prior to such transaction continue to hold (either by the voting securities remaining outstanding or by their being converted into voting securities of the surviving entity) more than 50% of the total voting power represented by the voting securities of the Company, or such surviving entity, outstanding immediately after such transaction.

For purposes of this Agreement, "Cause" for Optionee's termination of employment or consulting relationship will exist at any time after the happening of one or more of the following events: (i) Optionee's willful misconduct or gross negligence in performance of his duties hereunder, including Optionee's refusal to comply in any material respect with the legal directives of the Company's Board of Directors so long as such directives are not inconsistent with the Optionee's position and duties, and such refusal to comply is not remedied within ten (10) working days after written notice from the Board of Directors, which written notice shall state that failure to remedy such conduct may result in termination for Cause; (ii) Dishonest or fraudulent conduct, a deliberate attempt to do an injury to the Company, or conduct that materially discredits the Company or is materially detrimental to the reputation of the Company, including conviction of a felony; or (iii) Optionee's incurable material breach of any element of the Company's Confidential Information and Invention Assignment Agreement, including without limitation, Optionee's theft or other misappropriation of the Company's proprietary information.

For purposes of this Agreement, "Constructive Termination" shall be deemed to occur if (i) there is a material adverse change in Optionee's position causing such position to be of materially reduced stature or responsibility, (ii) a reduction of Optionee's base compensation unless in connection with similar decreases of other similarly situated employees of the Company, or (iii) Optionee's refusal to relocate to a facility or location more than fifty (50) miles from the Company's current location; and

within the ninety (90) day period immediately following such material change or reduction Optionee elects to terminate his employment or consulting relationship voluntarily.

Termination Period: This Option may be exercised for 90 days after termination of employment or consulting relationship except as set out in Sections 6 and 7 of the Stock Option Agreement (but in no event later than the Expiration Date).

By your signature and the signature of the Company's representative below, you and the Company agree that this Option is granted under and governed by the terms and conditions of the 1996 Stock Option Plan and the Stock Option Agreement, both of which are attached and made a part of this document.

RUSS KNITTEL:

SYNAPTICS INCORPORATED:

_____
Signature

By: _____

_____ _____
Print Name Print Name and Title

4

SYNAPTICS INCORPORATED

1996 STOCK OPTION PLAN

STOCK OPTION AGREEMENT

1. GRANT OF OPTION. Synaptics Incorporated, a California corporation (the "Company"), hereby grants to Russ Knittel ("Optionee") an option (the "Option") to purchase a total number of shares of Common Stock (the "Shares") set forth in the Notice of Stock Option Grant, at the exercise price per share set forth in the Notice of Stock Option Grant (the "Exercise Price") subject to the terms, definitions and provisions of the Synaptics Incorporated 1996 Stock Option Plan (the "Plan") adopted by the Company, which is incorporated herein by reference. Unless otherwise defined herein, the terms defined in the Plan shall have the same defined meanings in this Option.

If designated an Incentive Stock Option, this Option is intended to qualify as an Incentive Stock Option as defined in Section 422 of the Code.

2. EXERCISE OF OPTION. This Option shall be exercisable during its Term in accordance with the Vesting Schedule set out in the Notice of Stock Option Grant and with the provisions of Section 9 of the Plan as follows:

(a) RIGHT TO EXERCISE.

(i) This Option may be exercised in whole or in part at any time after the Date of Grant as to Shares which have not yet vested under the vesting schedule indicated on the Notice of Stock Option Grant and in accordance with the following schedule: Up to "No of Shares" Shares may be exercised as of the Date of Grant, and commencing on "Vesting Commence Date", 1/48 of the total number of Shares granted may be exercised on such date and on each monthly anniversary thereafter (which numbers shall include, in each case above, all Shares which have vested as of such dates); provided, however, that Optionee shall execute as a condition to the exercise of this Option for any unvested Shares, the Early Exercise Notice and Restricted Stock Purchase Agreement attached hereto as Exhibit A (the "Early Exercise Agreement") for any Shares that have not vested under the vesting schedule indicated on the Notice of Stock Option Grant. If Optionee chooses to exercise this Option solely as to Shares which have vested under the vesting schedule indicated on the Notice of Stock Option Grant, Optionee shall complete and execute the form of Exercise Notice and Restricted Stock Purchase Agreement attached hereto as Exhibit B (the "Exercise Agreement"). Notwithstanding the foregoing, the Company may in its discretion prescribe or accept a different form of notice of exercise and/or stock purchase agreement if such forms are otherwise consistent with this Agreement, the Plan and then-applicable law.

(ii) This Option may not be exercised for a fraction of a share.

(iii) In the event of Optionee's death, disability or other termination of employment or consulting relationship, the exercisability of the Option is governed by Sections 5, 6 and 7 below, subject to the limitation contained in Section 2(a)(iv) below.

5

(iv) In no event may this Option be exercised after the Expiration Date of this Option as set forth in the Notice of Stock Option Grant.

(b) METHOD OF EXERCISE. This Option shall be exercisable by execution and delivery of the Early Exercise Agreement or the Exercise Agreement, whichever is applicable, or of any other written notice approved for such purpose by the Company which shall state optionee's election to exercise the Option, the number of Shares in respect of which the Option is being exercised, and such other representations and agreements as to the holder's investment intent with respect to such shares of Common Stock as may be required

by the Company pursuant to the provisions of the Plan. Such written notice shall be signed by Optionee and shall be delivered in person or by certified mail to the Secretary of the Company. The written notice shall be accompanied by payment of the Exercise price. This Option shall be deemed to be exercised upon receipt by the Company of such written notice accompanied by the Exercise Price.

No Shares will be issued pursuant to the exercise of an Option unless such issuance and such exercise shall comply with all relevant provisions of applicable law, including the requirements of any stock exchange upon which the Shares may then be listed. Assuming such compliance, for income tax purposes the Shares shall be considered transferred to Optionee on the date on which the Option is exercised with respect to such Shares.

3. METHOD OF PAYMENT. Payment of the Exercise Price shall be by any of the following, or a combination thereof, at the election of Optionee:

(a) cash;

(b) check;

(c) surrender of other shares of Common Stock of the Company which (i) in the case of Shares acquired pursuant to the exercise of a Company option, have been owned by Optionee for more than 6 months on the date of surrender, and (ii) have a Fair Market Value on the date of surrender equal to the Exercise Price of the Shares as to which the Option is being exercised;

(d) if there is a public market for the Shares and they are registered under the Exchange Act, delivery of a properly executed exercise notice together with irrevocable instructions to a broker to deliver promptly to the Company the amount of sale or loan proceeds required to pay the Exercise Price; or

(e) a promissory note in the form attached to this Agreement as Exhibit C, or in any other form approved by the Company.

4. RESTRICTIONS ON EXERCISE. This Option may not be exercised until such time as the Plan has been approved by the shareholders of the Company, or if the issuance of such Shares upon such exercise or the method of payment of consideration for such shares would constitute a violation of any applicable federal or state securities or other law or regulation, including any rule under Part 207 of Title 12 of the Code of Federal Regulations as promulgated by the Federal Reserve Board. As a condition to the exercise of this Option, the Company may

require Optionee to make any representation and warranty to the Company as may be required by any applicable law or regulation.

5. TERMINATION OF RELATIONSHIP. In the event of termination of Optionee's Continuous Status as an Employee or Consultant, Optionee may, to the extent otherwise so entitled at the date of such termination (the "Termination Date"), exercise this Option during the Termination Period set forth in the Notice of Stock Option Grant. To the extent that Optionee was not entitled to exercise this Option at such Termination Date, or if Optionee does not exercise this Option within the Termination Period, the Option shall terminate.

6. DISABILITY OF OPTIONEE.

(a) Notwithstanding the provisions of Section 5 above, in the event of termination of Optionee's Continuous Status as an Employee or Consultant as a result of his or her total and permanent disability (as defined in Section 22(e)(3) of the Code), Optionee may, but only within twelve months from the Termination Date (but in no event later than the Expiration Date set forth in the Notice of Stock Option Grant and in Section 9 below), exercise this Option to the extent he or she was entitled to exercise it at such Termination Date. To the extent that Optionee was not entitled to exercise the Option on the Termination Date, or if Optionee does not exercise such Option to the extent so entitled within the time specified in this Section 6(a), the Option shall terminate.

(b) Notwithstanding the provisions of Section 5 above, in the event of termination of Optionee's consulting relationship or Continuous Status as an Employee as a result of a disability not constituting a total and

permanent disability (as set forth in Section 22(e)(3) of the Code), Optionee may, but only within six months from the Termination Date (but in no event later than the Expiration Date set forth in the Notice of Stock Option Grant and in Section 9 below), exercise the Option to the extent Optionee was entitled to exercise it as of such Termination Date; provided, however, that if this is an Incentive Stock Option and Optionee fails to exercise this Incentive Stock Option within three months from the Termination Date, this Option will cease to qualify as an Incentive Stock Option (as defined in Section 422 of the Code) and Optionee will be treated for federal income tax purposes as having received ordinary income at the time of such exercise in an amount generally measured by the difference between the Exercise Price for the Shares and the Fair Market Value of the Shares on the date of exercise. To the extent that Optionee was not entitled to exercise the Option at the Termination Date, or if Optionee does not exercise such Option to the extent so entitled within the time specified in this Section 6(b), the Option shall terminate.

7. DEATH OF OPTIONEE. In the event of the death of Optionee (a) during the Term of this Option and while an Employee or Consultant of the Company and having been in Continuous Status as an Employee or Consultant since the date of grant of the Option, or (b) within 30 days after Optionee's Termination Date, the Option may be exercised at any time within six months following the date of death (but in no event later than the Expiration Date set forth in the Notice of Stock Option Grant and in Section 9 below), by Optionee's estate or by a person who acquired the right to exercise the Option by bequest or inheritance, but only to the extent of the right to exercise that had accrued at the Termination Date.

8. NON-TRANSFERABILITY OF OPTION. This Option may not be transferred in any manner otherwise than by will or by the laws of descent or distribution and may be exercised during the lifetime of Optionee only by him or her. The terms of this Option shall be binding upon the executors, administrators, heirs, successors and assigns of Optionee.

9. TERM OF OPTION. This Option may be exercised only within the Term set forth in the Notice of Stock Option Grant, subject to the limitations set forth in Section 7 of the Plan.

10. TAX CONSEQUENCES. Set forth below is a brief summary as of the date of this Option of certain of the federal and California tax consequences of exercise of this Option and disposition of the Shares under the laws in effect as of the Date of Grant. THIS SUMMARY IS NECESSARILY INCOMPLETE, AND THE TAX LAWS AND REGULATIONS ARE SUBJECT TO CHANGE. OPTIONEE SHOULD CONSULT A TAX ADVISER BEFORE EXERCISING THIS OPTION OR DISPOSING OF THE SHARES.

(a) INCENTIVE STOCK OPTION.

(i) TAX TREATMENT UPON EXERCISE AND SALE OF SHARES. If this Option qualifies as an Incentive Stock Option, there will be no regular federal income tax liability upon the exercise of the Option, although the excess, if any, of the fair market value of the Shares on the date of exercise over the Exercise Price will be treated as an adjustment to the alternative minimum tax for federal tax purposes and may subject Optionee to the alternative minimum tax in the year of exercise. If Shares issued upon exercise of an Incentive Stock Option are held for at least one year after exercise and are disposed of at least two years after the Option grant date, any gain realized on disposition of the Shares will also be treated as long-term capital gain for federal income tax purposes. If Shares issued upon exercise of an Incentive Stock Option are disposed of within such one-year period or within two years after the Option grant date, any gain realized on such disposition will be treated as compensation income (taxable at ordinary income rates) to the extent of the difference between the Exercise Price and the lesser of (i) the fair market value of the Shares on the date of exercise, or (ii) the sale price of the Shares.

(ii) NOTICE OF DISQUALIFYING DISPOSITIONS. With respect to any Shares issued upon exercise of an Incentive Stock Option, if Optionee sells or otherwise disposes of such Shares on or before the later of (i) the date two years after the Option grant date, or (ii) the date one year after the date of exercise, Optionee shall immediately notify the Company in writing of such disposition. Optionee acknowledges and agrees that he or she may be subject to income tax withholding by the Company on the compensation income recognized by Optionee from the early disposition by payment in cash or out of

the current earnings paid to Optionee.

(b) NONSTATUTORY STOCK OPTION. If this Option does not qualify as an Incentive Stock Option, there may be a regular federal (and state) income tax liability upon the exercise of the Option. Optionee will be treated as having received compensation income (taxable at ordinary income tax rates) equal to the excess, if any, of the fair market value of the Shares on the date of exercise over the Exercise Price. If Optionee is an Employee, the Company will be required to withhold from Optionee's compensation or collect from Optionee and pay to the applicable taxing authorities an amount equal to a percentage of this compensation income at the time of exercise. If Shares issued upon exercise of a Nonstatutory Stock Option are held for

at least one year, any gain realized on disposition of the Shares will be treated as long-term capital gain for federal income tax purposes.

11. WITHHOLDING TAX OBLIGATIONS. Optionee understands that, upon exercising a Nonstatutory Stock Option, he or she will recognize income for tax purposes in an amount equal to the excess of the then Fair Market Value of the Shares over the Exercise Price. However, the timing of this income recognition may be deferred for up to six months if Optionee is subject to Section 16 of the Exchange Act. If Optionee is an employee, the Company will be required to withhold from Optionee's compensation, or collect from Optionee and pay to the applicable taxing authorities an amount equal to a percentage of this compensation income. Additionally, Optionee may at some point be required to satisfy tax withholding Obligations with respect to the disqualifying disposition of an Incentive Stock Option. Optionee shall satisfy his or her tax withholding obligation arising upon the exercise of this Option by one or some combination of the following methods: (a) by cash payment, (b) out of Optionee's current compensation, (c) if permitted by the Administrator, in its discretion, by surrendering to the Company Shares which (i) in the case of Shares previously acquired from the Company, have been owned by Optionee for more than six months on the date of surrender, and (ii) have a Fair Market Value on the date of surrender equal to the minimum statutory amount required to be withheld, or (d) by electing to have the Company withhold from the Shares to be issued upon exercise of the Option that number of Shares having a Fair Market Value equal to the minimum statutory amount required to be withheld. For this purpose, the Fair Market Value of the Shares to be withheld shall be determined on the date that the amount of tax to be withheld is to be determined (the "Tax Date").

If Optionee is subject to Section 16 of the Exchange Act (an "Insider"), any surrender of previously owned Shares to satisfy tax withholding obligations arising upon exercise of this Option must comply with the applicable provisions of Rule 16b-3 promulgated under the Exchange Act ("Rule 16b-3").

All elections by Optionee to have Shares withheld to satisfy tax withholding obligations shall be made in writing in a form acceptable to the Administrator and shall be subject to the following restrictions:

(a) the election must be made on or prior to the applicable Tax Date;

(b) once made, the election shall be irrevocable as to the particular Shares of the Option as to which the election is made; and

(c) all elections shall be subject to the consent or disapproval of the Administrator.

12. MARKET STANDOFF AGREEMENT. In connection with the initial public offering of the Company's securities and upon request of the Company or the underwriters managing such underwritten offering of the Company's securities, Optionee agrees not to sell, make any short sale of, loan, grant any option for the purchase of, or otherwise dispose of any securities of the Company (other than those included in the registration) without the prior written consent of the Company or such underwriters, as the case may be, for such period of time (not to exceed 180

days) from the effective date of such registration as may be requested by the Company or such managing underwriters and to execute an agreement reflecting the

foregoing as may be requested by the underwriters at the time of the Company's initial public offering.

[Signature Page Follows]

10

This Agreement may be executed in two or more counterparts, each of which shall be deemed an original and all of which together shall constitute one document.

SYNAPTICS INCORPORATED

By: _____

Name: _____
(print)

Title: _____

OPTIONEE ACKNOWLEDGES AND AGREES THAT THE VESTING OF SHARES PURSUANT TO THE OPTION HEREOF IS EARNED ONLY BY CONTINUING CONSULTANCY OR EMPLOYMENT AT THE WILL OF THE COMPANY (NOT THROUGH THE ACT OF BEING HIRED, BEING GRANTED THIS OPTION OR ACQUIRING SHARES HEREUNDER). OPTIONEE FURTHER ACKNOWLEDGES AND AGREES THAT NOTHING IN THIS AGREEMENT, NOR IN THE COMPANY'S STOCK OPTION PLAN WHICH IS INCORPORATED HEREIN BY REFERENCE, SHALL CONFER UPON OPTIONEE ANY RIGHT WITH RESPECT TO CONTINUATION OF EMPLOYMENT OR CONSULTANCY BY THE COMPANY, NOR SHALL IT INTERFERE IN ANY WAY WITH OPTIONEE'S RIGHT OR THE COMPANY'S RIGHT TO TERMINATE OPTIONEE'S EMPLOYMENT OR CONSULTANCY AT ANY TIME, WITH OR WITHOUT CAUSE.

Optionee acknowledges receipt of a copy of the Plan and represents that he or she is familiar with the terms and provisions thereof, and hereby accepts this Option subject to all of the terms and provisions thereof. Optionee has reviewed the Plan and this Option in their entirety, has had an opportunity to obtain the advice of counsel prior to executing this Option and fully understands all provisions of the Option. Optionee hereby agrees to accept as binding, conclusive and final all decisions or interpretations of the Administrator upon any questions arising under the Plan or this Option.

Dated: _____ _____
Russ Knittel

EXHIBIT 21

SUBSIDIARIES

NAME	STATE OR JURISDICTION OF ORGANIZATION
Synaptics International, Inc.	California
Synaptics (UK) Limited	United Kingdom

EXHIBIT 23.2

CONSENT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

We consent to the references to our firm under the captions "Selected Consolidated Financial Data" and "Experts" and to the use of our report dated July 25, 2001, in Amendment No. 1 to the Registration Statement (Form S-1 No. 33-56026) and related Prospectus of Synaptics Incorporated for the registration of shares of its common stock.

Our audits also included the financial statement schedule of Synaptics Incorporated listed in Item 16(b). This schedule is the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits. In our opinion, the financial statement schedule referred to above, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ ERNST & YOUNG LLP

San Jose, California
August 17, 2001

EXHIBIT 23.3

Consent of KPMG LLP, Independent Auditors

The Board of Directors
Foveon, Inc.:

We consent to the use of our report dated August 31, 2000 on the balance sheets of Foveon, Inc. (a development stage enterprise) as of July 1, 2000 and July 2, 1999, and the related statements of operations, redeemable convertible preferred stock and shareholders' deficit, and cash flows for the years then ended and for the period from July 9, 1997 (inception) to July 1, 2000, in Amendment No. 1 to the registration statement on Form S-1 of Synaptics Incorporated filed on or about August 16, 2001, and to the reference to our firm under the heading "Experts" in the prospectus.

/s/ KPMG LLP

Mountain View, California
August 16, 2001