

SECURITIES AND EXCHANGE COMMISSION

FORM 10-K

Annual report pursuant to section 13 and 15(d)

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ITI TECHNOLOGIES INC

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Mailing Address
2266 NORTH SECOND ST
NORTH ST PAUL MN 55109

Business Address
2266 NORTH SECOND ST
NORTH ST PAUL MN 55109
6127772690

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

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

FOR THE FISCAL YEAR ENDED DECEMBER 31, 1998

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

FOR THE TRANSITION PERIOD FROM _____ TO _____ .
COMMISSION FILE NUMBER 0-24900

ITI TECHNOLOGIES, INC.
(Exact name of Registrant as specified in its charter)

DELAWARE
(State or other jurisdiction of
incorporation or organization)

06-1340453
(I.R.S. Employer
Identification No.)

2266 NORTH SECOND STREET
NORTH ST. PAUL, MINNESOTA
(Address of principal executive offices)

55109
(Zip Code)

(651) 777-2690
(Registrant's telephone number, including area code)

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT: None

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:
Common Stock, \$.01 par value
(Title of class)

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

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

Aggregate market value of Common Stock held by non-affiliates of
Registrant, based on the closing sale price of \$31.50 per share as reported on
The Nasdaq National Market on February 25, 1999: \$265,502,223.

Number of shares of Common Stock outstanding as of February 25,
1999: 8,428,642.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of Registrant's Proxy Statement are incorporated
by reference into Part III.

ITI TECHNOLOGIES, INC.
ANNUAL REPORT ON FORM 10-K
FOR THE YEAR ENDED DECEMBER 31, 1998

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DOCUMENTS INCORPORATED BY REFERENCE

The following documents are incorporated by reference to the parts indicated of this Annual Report on Form 10-K:

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PARTS OF ANNUAL REPORT ON FORM 10-K	DOCUMENTS INCORPORATED BY REFERENCE
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<S>	<C>
PART III	
Item 10. Directors and Executive Officers of the Registrant	Reference is made to the Registrant's definitive proxy statement, which will be filed with the Securities and Exchange Commission (the "Commission") within 120 days after December 31, 1998 (the "Proxy Statement").
Item 11. Executive Compensation	Reference is made to the Registrant's Proxy Statement.
Item 12. Security Ownership of Certain Beneficial Owners and Management	Reference is made to the Registrant's Proxy Statement.

</TABLE>

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CROSS REFERENCE SHEET
BETWEEN ITEMS IN PART III
OF FORM 10-K AND

<TABLE>
<CAPTION>

ITEM NUMBER AND CAPTION	SUBJECT HEADINGS IN PROXY STATEMENT
Item 10. Directors and Executive Officers of the Registrant	Election of Directors/Executive Compensation
Item 11. Executive Compensation	Executive Compensation
Item 12. Security Ownership of Certain Beneficial Owners and Management	Security Ownership of Management and Certain Beneficial Owners

</TABLE>

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PART I

ITEM 1. BUSINESS

When used in this document, the words "believes," "anticipates" and similar expressions are intended to identify forward-looking statements. Such statements are subject to certain risks and uncertainties which could cause actual results to differ materially from those projected. Readers are cautioned not to place undue reliance on these forward-looking statements which speak only as of the date hereof. The Company undertakes no obligation to publish revised forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events. Readers are also urged to carefully review and consider the various disclosures made by the Company which attempt to advise interested parties of the factors which affect the Company's business, not only in this report, but also in the Company's reports on Forms 10-Q and 8-K filed with the Commission.

GENERAL

ITI Technologies, Inc. and its wholly owned subsidiaries (collectively, the "Company") design, manufacture and market electronic security systems (both intrusion and fire protection) as well as electronic access control systems. Electronic security systems account for approximately 98% of the Company's sales.

The Company's wholly owned subsidiary, Interactive Technologies, Inc. ("ITI"), was incorporated in January 1980 under the laws of the State of Minnesota. In January 1985, ITI incorporated a foreign international sales corporation, ITI International, Inc., as a wholly owned subsidiary under the laws of the United States Virgin Islands.

ITI Technologies, Inc. was incorporated in February 1992 under the laws of the State of Delaware for the purpose of acquiring ITI. On May 11, 1992, the Company acquired ITI from a United States holding company controlled by ADIA S.A. of Switzerland and certain members of ITI's management.

In November 1994, the Company completed a public offering of 1,900,000 newly issued shares of common stock at \$16.00 per share (the "Offering"). Prior to the Offering, there was no public market for the Company's common stock. In May 1995, in a subsequent offering, selling shareholders sold 3,225,000 shares and the Company sold 225,000 shares at \$24.00 per share. The Company used the net proceeds from these offerings to retire debt that had been incurred at the time of the acquisition of ITI.

In April 1996, ITI incorporated ITI Finance Corporation as a wholly owned subsidiary under the laws of the State of Minnesota for the purpose of providing financing to the Company's independent dealer base.

On April 30, 1997, the Company purchased all of the outstanding stock of CADDX-CADDI Controls, Inc. ("CADDX") for \$19.0 million in cash (the "Acquisition"). In conjunction with the Acquisition, the Company also purchased from the majority shareholder of CADDX the manufacturing facility leased by CADDX for \$530,000. Immediately following the Acquisition, the corporate name was changed to CADDX Controls, Inc. CADDX, located in Gladewater, Texas, designs, manufactures and markets hardware electronic security systems in the United States and certain international locations.

On May 22, 1997, the Company completed the cash purchase of the Regency product line and dealer program from the Silent Knight Division of Willknight, Inc., located in Minneapolis, Minnesota, for \$1.8 million. If sales of Regency products over the 36-month period ending May 2000 exceed certain

levels, a contingent payment of up to \$800,000 will be made. This product line allows the Company to offer an established product that integrates intrusion protection, fire protection and access control.

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Unless the context requires otherwise, the term "Company" shall refer to ITI Technologies, Inc. and its wholly owned subsidiaries, ITI, CADDX, ITI International, Inc., and ITI Finance Corporation.

INDUSTRY OVERVIEW

There are multiple markets in the electronic security industry. The Company currently competes in the burglar alarm market, the electronic access control market and the commercial fire detection market.

A typical electronic security system consists of four basic components: (i) a central control panel which coordinates and controls all security and home automation system functions and automatically reports emergency conditions and service information to a remote central monitoring facility; (ii) touchpads which enable the user to arm, disarm and give other commands to the system, including panic buttons to alert the central monitoring facility to police, fire and medical emergencies; (iii) a variety of sensors that detect intrusion, fire and other environmental conditions and report them to the system's central control panel; and (iv) sirens designed to frighten away an intruder and which alert the user to the particular alarm condition by audible signal or digitized voice while the control panel is reporting the condition to the central monitoring station. All of these devices are located in the protected home or business.

There are two primary types of security systems: (i) hardwire systems, consisting of a control panel and sensors that communicate through low-voltage wires, and (ii) wireless systems, which utilize sensors that communicate with a central control panel using radio frequency (RF) signals. Hardwire systems are particularly suited to new construction or areas of the world in which installation and labor costs are extremely low. Wireless systems are particularly well-suited for retrofitting systems into existing homes or businesses and for life safety markets such as panic and medical alert systems. A third type of security system is a hybrid system, which has both hardwire and wireless capabilities.

The Company believes that several factors contribute to a favorable outlook for growth in the electronic security system market. These include increasing use of wireless security systems, increasing growth in international demand for burglar alarm systems, increasing concern about crime, low penetration of security systems in United States households, improved technology and product features, lower cost systems and the availability of insurance discounts to homeowners who purchase security systems.

SUPERVISED WIRELESS SECURITY SYSTEMS MARKETED UNDER THE ITI (R) TRADEMARK

The Company's wireless security systems are very flexible and can be programmed by the end-user to offer varying degrees of security, depending on the end-user's protection desires. The systems have the ability in all security levels to detect fire and other environmental conditions and to respond to manual activation for police, fire and medical emergencies.

The Company offers a number of wireless security systems to meet a variety of price points and customer performance requirements, including:

CONCORD. In 1998, the Company released a modular hybrid system called Concord. By containing both hardwire and wireless capabilities, Concord offers the installing dealer the low-price of hardwire with the flexibility of wireless. The basic 8-zone hardwire control panel can be upgraded through the use of modules to a 76-zone panel with lighting control, telephone control, voice feedback and paging output for latchkey reporting. The modular approach allows the installing dealer to utilize one product platform for a wide variety of installation requirements.

ULTRAGARD SYSTEM. The UltraGard system was introduced in 1996. The UltraGard system features a 76-zone panel which operates on 12 volts (as opposed to the other products in ITI's lines, which operate

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on 6 volts). This high performance system is well suited for commercial applications as well as the largest residential applications.

SIMON. The Simon system, first introduced in 1997, received substantial enhancements in 1998. Simon is an entry-level wireless security system aimed at those in the industry looking for a low-cost wireless solution for mass marketing programs or where security equipment is either given away or installed at a loss in an effort to obtain a

long-term monitoring contract. The Simon system has the capability to individually recognize up to 24 wireless sensors. With the enhancement, it can now be controlled via a remote touch-tone phone and is compatible with two-way listen-in, talk-back alarm verification. The Company also introduced TOUCHTALK, the industry's first wireless talking touchpad as an upgrade option. Simon can be used with all of the Company's existing ITI wireless sensors.

COMMANDER 2000 SYSTEM. The Commander 2000 system was introduced in 1994 to succeed the RF Commander system, which was first introduced in 1990. This system was designed as an entry level wireless security system for use in smaller businesses, homes and apartments and has many of the advanced features found in more expensive systems. The Commander 2000 has the capability to individually recognize up to 16 wireless sensors and can be used with substantially all of ITI's wireless accessories.

CUSTOMIZED AND PRIVATE LABEL SYSTEMS. The Company has established relationships with large security companies to develop and manufacture customized, private label wireless security systems. In developing these systems, the Company may modify its existing systems by adding customized control panel software and component packaging as requested by the customer.

SYSTEM FEATURES AND COMPONENTS OF ITI WIRELESS SECURITY SYSTEMS

ITI wireless security systems incorporate several innovative and advanced features and components which increase product performance, reliability and marketability:

SUPERIOR SUPERVISED RADIO TECHNOLOGY. The Company believes its wireless security systems incorporate the most advanced radio technology currently available in supervised wireless systems. Each wireless sensor in an ITI system reports to the central control panel as a unique zone, enabling the central monitoring station personnel to identify and communicate to police or firefighters the exact location and nature of an emergency. If the control panel does not receive scheduled signals from a sensor, it reports the identity of the particular sensor to the central monitoring station and the end-user. This feature also allows service personnel to quickly find a malfunctioning sensor. Through the use of crystal-controlled radio transmitters and receivers, coupled with its patented LEARN MODE and signaling protocol technologies, the Company has virtually eliminated the effects of interference and greatly increased the range of its systems within the limitations imposed by the Federal Communications Commission ("FCC"). This supervised radio technology enhances the reliability and performance of ITI wireless systems and allows them to be used in larger premises, including many commercial facilities, where the use of wireless systems once was not feasible.

LEARN MODE TECHNOLOGY. The Company's patented Learn Mode technology enables control panels to automatically "learn" the identity and type of each factory-programmed sensor in its system when the system is installed. The Learn Mode technology is attractive to the Company's customers because each sensor is manufactured with a unique programmed identity. This Learn Mode process reduces the time and cost of installing sensors and programming the systems and allows the installation of large numbers of security systems in densely populated areas without interference with neighboring systems.

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TOUCH-TONE TELEPHONE INTERFACE. The Company was the first to introduce the use of on- or off-site touch-tone telephones as touchpads to control security systems. This technology provides touch-tone telephones with all the system control capabilities of the touchpads manufactured by the Company for ITI wireless security systems. This feature contributes to end-user convenience by enabling the end-user to control the system from on- or off-premises by using touch-tone telephones.

DIGITIZED VOICE TECHNOLOGY. The Company enhanced the "user-friendliness" and convenience of its systems by incorporating digitized voice technology. ITI wireless security systems can "talk" to the end-user on-site with digitized voice, and all systems except for the Commander 2000 also "talk" over on-or off-site touch-tone telephones. Incorporating digitized voice technology allows the end-user to confirm commands, such as the level of protection or a disarming signal, or to receive a status report of protection levels and environmental conditions, such as the temperature inside the end-user's house. In response to various foreign sales opportunities, the Company has incorporated digitized voice response capabilities in several foreign languages into its systems.

BREADTH OF SENSOR LINE. The Company believes it offers the widest variety of wireless sensors currently available in the security system market. ITI wireless sensors include motion detectors; different types of

intrusion sensors activated by sound, shock, or shattering glass; photoelectric smoke sensors; "rate-of-rise" fire sensors with a special thermostat activated by an unusually rapid temperature increase; carbon monoxide sensors; pocket-sized emergency transmitters; and environmental sensors to detect such conditions as furnace failure and flooding. ITI sensors also are the smallest available in any supervised wireless security system. The Company believes that its wide variety of sensors and their compact size offer it a significant competitive advantage. Most of the Company's wireless sensors have long-life lithium batteries, thus increasing system reliability and convenience. Much of the ITI wireless sensor line utilizes crystal-controlled radio transmitters. In 1997, the Company introduced a new lower cost sensor line based on Surface Acoustic Wave, or SAW, radio technology.

INTERACTIVE CAPABILITIES. ITI systems communicate alarm information to central monitoring facility personnel over telephone lines using the Company's CS-5000 central station receiver. ITI Toolbox(R), a PC-based software tool, allows a technician to remotely perform certain kinds of service and programming on ITI security systems remotely, avoiding delay and expensive on-site service calls.

HOME MANAGEMENT CAPABILITIES. The ITI energy saver module, which is available with the UltraGard and Concord systems, enables an end-user to adjust a thermostat using either a touchpad or an on- or off-site touch-tone telephone which can result in reduced energy costs to the end-user. The ITI wireless systems also can be used to control lights through the use of touchpads. The Company has developed a power line signaling technology that allows its system control panels to activate sirens and light modules over the household electrical system. Sirens and lights thus can be installed and controlled virtually anywhere in the premises where there is an electrical outlet.

ALARM VERIFICATION. False alarms represent a troublesome issue for the security industry. In 1993, the Company introduced its Interrogator alarm verification module to address the false alarm issue. The Interrogator gives ITI wireless systems two-way voice capabilities through sensitive microphones and talk-back speakers that are placed strategically throughout a home or business. After an alarm has occurred and been reported to the central station, the Interrogator will allow the central station operator to either "listen in" or, if desired, "talk back" to the subject home or business. This built-in communicator helps enable the central station operator to verify alarms before dispatching the police or fire department. The Interrogator can digitally record and play back 16 seconds of an alarm event with the simple addition of the optional recording module. This enables the central station operator to listen to a recording of the actual emergency event as it happened. The Interrogator and the optional recording module work with all

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of ITI's wireless security systems and also can be sold separately for use with other manufacturers' security systems.

HARDWARE AND HYBRID SECURITY SYSTEMS MARKETED UNDER THE CADDX(TM) TRADEMARK

The Company has developed a line of hardwire and hybrid security systems targeted at both the domestic and international markets. The international market for security systems is rapidly growing and is approximately twice the size of the U.S. market and is roughly split between Europe and the rest of the world. The Company is one of the largest U.S. exporters of security system controls, offering multiple systems to satisfy the needs of the international, new construction and low-end hardwire markets.

NX PRODUCT LINE. In mid-1997, the Company introduced the CADDX NX-8 security system, which is designed to be a hybrid security system that will meet various countries' regulatory requirements throughout the world. The NX-8 is flexible, durable and user/installer friendly. The development of the NX-8 required several design and engineering innovations, including the creation of special telecom and power interfaces that would be acceptable under any country's regulations anywhere in the world. By adding an ITI wireless receiver to the NX-8 control panel, the NX-8 becomes a true hybrid system with both hardwire and wireless capabilities. In 1998, the Company built on the success of the NX-8 by introducing the NX-6 and NX-4 security systems offering similar functionality at a lower price point.

RANGER PRODUCT LINE. The CADDX Ranger 9000E is a powerful, simple and flexible hardwire panel that can become a hybrid panel with the addition of a radio receiver. The Ranger 9000E is suitable for residential, commercial, retail and multi-tenant office building applications. This system provides the ability to incorporate security, access control and environmental process monitoring for commercial applications. Other security control panels in the CADDX Ranger family include the Ranger 8600, Ranger 8600E, Ranger 8980 and the Ranger 8980E.

GLASS BREAK DETECTORS. The Company manufactures a line of glass break detectors under the CADDX trademark. The Company's patented "3x3" technology, which is a method of glass break detection that monitors three specific frequency ranges for three different sets of data and looks for a "match" to the "signature" of breaking glass, is incorporated in CADDX glass break sensors, making them extremely reliable.

OTHER HARDWARE SECURITY PRODUCTS. The Company also manufactures various other hardware sensors for use in connection with hardware control panels, including passive infrared sensors (or motion detectors) and seismic detectors.

ACCESS CONTROL

Electronic Access Control ("EAC") systems are designed to monitor traffic through and grant or deny access to buildings and other restricted areas depending on the clearance and authority level of the individual attempting to enter. A basic EAC system consists of four components: (i) a controller that, either independently or with a remote computer, controls the system database and issues commands to lock or unlock doors; (ii) a magnetic lock that responds to the controller commands; (iii) cards, or other identification technology, that carry user data; and (iv) readers that read the user data on the cards and send the information to the controller for processing. Assuming the user's identity resides in the system database and the user has proper authority, the controller issues the command for the door to unlock. EAC can range from control of a single door with a few users to hundreds of doors at multiple locations with thousands of users.

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The Company offers a number of EAC systems to meet a variety of price points and customer performance requirements, including:

ACCESS NT. Based on Microsoft Windows NT software, this system allows multiple work stations to be functioning simultaneously to monitor the system, add cards, change access times, make badges, control closed-circuit television cameras, create reports, etc. The system expands the functionality of the Access Point Manager ("APM") panels.

ACCESS 5.0. This system has many of the same functions as Access NT, but with a smaller system capacity that performs in a non-multitasking operation at a lower price point. Both Access 5.0 and Access NT are aimed at the middle to large EAC installations.

EASY ACCESS. This is a Microsoft Windows-based system that provides the sophistication of more expensive PC-based systems but at a low price point. Easy Access controls up to 32 doors with a very simple to use point-and-click graphical interface.

451 APM. This is a stand-alone system that provides much of the sophistication of a PC-based system without the expense of a host computer. Each 451 system has its own microprocessor, database and clock. Each 451 system can operate independently or as part of a network of up to 16 APMs, allowing the control of up to 32 doors without the use of a host computer.

351 APM. The 351 system is aimed at small businesses that may have only one or two doors to protect but want to control who gets in and at what times. The 351 system is designed to work independently to control one or two doors and has its own microprocessor, database and clock.

FIRE PROTECTION SYSTEMS

The total fire alarm market is estimated at \$2 billion, including product, installation, service and monitoring. The manufacturers' equipment market is estimated at \$800 million. While new to the commercial fire equipment market, the Company will shortly be offering several commercial fire products. The soon to be released Advent Fire System offers an excellent product solution for the high-end fire market. The Regency product and soon to be released UL commercial fire rated version of the CADDX NX-8 offer solutions for the retail and small commercial fire markets.

Fire business is traditionally won by persuading specifying firms to specify your product. It is common to take two to five years in the specifying market for relationships to lead to sales. Business is also gained through negotiating directly with the end-users. Achieving the above market goals will necessitate a strategy of focusing on negotiated sales, particularly with Midwest regional end-users, in the first 18 months while developing relationships with specifying companies for future sales.

ADVENT FIRE SYSTEM, slated for mid-1999, is a full-featured, high-level system. With its built-in multi-partition, 250 zone and long-range wireless capabilities, Advent Fire System is targeted for large

commercial applications such as industrial complexes, government facilities, campuses, and high-rise office and residential complexes. The system can be powered by either one Class I or two Class II AC power transformers for up to 6 amps of 12/24 VDC regulated power for a large number of sensor, siren, analog smoke loop and other hardwire peripheral devices. Advent's capabilities can be increased by plugging in panel input, output, and/or smoke loop expansion cards. It can also be expanded through the built-in high speed, digital data bus that can connect a wide array of ITI SuperBus peripherals.

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REGENCY is a UL rated system that incorporates commercial burglary, fire and access control into a single platform. The integration makes it particularly attractive for retail and small commercial applications desiring multiple functionality.

The NX-8 CF, which will be available in 1999, is a commercial fire version of the popular NX-8 control panel. It has 8 zones on-board and can be upgraded to over 40 zones with the addition of modules.

OTHER PRODUCTS

In addition to developing new features for existing products, the Company's innovative product development programs have produced products for related markets using its existing technologies:

THE QUIK BRIDGE FAMILY. The Quik Bridge family is a group of wireless receivers equipped with interfaces that broaden the market opportunities for ITI Learn Mode sensors. The Company has introduced several Quik Bridge family members. The Quik Bridge Repeater extends the range of ITI wireless sensors attached to ITI wireless receivers. The Quik Bridge Loop Receiver enables adding up to 16 ITI wireless sensors to any hardwire panel that supports a common loop ground and/or a relay unit connection. In 1998, the Company released the Quik Bridge two-channel receiver, which adds up to four wireless devices to any hardwire system. The Company also has custom receiver products specifically designed to work with the CADDX NX line of control panels in domestic and international markets and certain Radionics and Detection Systems controls in the U.S. market. In addition, the Quik Bridge family allows the use of the ITI keychain touchpad to control the Company's and other manufacturers' access control systems.

CS 5000 COMPUTERIZED CENTRAL STATION RECEIVER. In 1998, the Company released the CS 5000 as a replacement for the CS 4000 central station receiver. The CS 5000 can be used by the central monitoring service providers to receive and monitor information from homes and businesses protected with ITI wireless security systems and certain other manufacturers' security systems. Monitoring station personnel transmit emergency messages to police, fire, medical or other authorities.

LIFEGARD. Recognizing the growing elderly population, the Company introduced in 1996 its LifeGuard personal emergency response system. Like a security system, LifeGuard maintains a communication link with a monitoring company in order to provide the fastest possible response during an emergency. Two-way voice communication with the monitoring company is initiated either when the owner presses one of at least two panic buttons, or when the system does not detect activity in the home after an elapsed time. The LifeGuard system includes a control panel mounted on a base, a built-in Interrogator and a water-resistant panic pendant.

SALES AND MARKETING

The Company sells ITI wireless security equipment directly to its independent dealer network, large security companies and other private label customers, and electric and gas utility companies. The Company sells CADDX hardwire and hybrid security systems primarily through domestic and international distributors. Approximately 47% of CADDX branded product is sold outside of the United States and Canada.

SALES TO INDEPENDENT DEALER NETWORK. The Company has a nation-wide sales force supporting its network of over 2,000 independent dealers. Through its independent dealer network, ITI wireless security products are sold extensively throughout the United States and Canada. The Company's dealer sales and support programs include sales aids (such as sales literature and demo kits), marketing literature and instructional videos for both dealers and end-users. In addition, the Company provides its dealers with a

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wide variety of training programs and materials, including technical, sales, marketing and business management programs and a number of

marketing newsletters. The Company recognizes its top dealers with an incentive program which includes an annual trip to ITI's national dealer sales meeting, which reinforces the ties between the Company and its key dealers. ITI believes its dealer program gives it a competitive advantage and engenders dealer loyalty. The Company's Security Pro and Regency dealer programs enhance and support its independent dealer network.

SALES TO LARGE SECURITY COMPANIES AND OTHER PRIVATE LABEL ARRANGEMENTS. The Company designs and manufactures customized and private label systems for companies that sell the systems on a national and regional basis. These customers offer the potential for substantial sales volume, provide extensive geographic coverage and, in many cases, offer the ability to sell ITI products under nationally recognized brand names. Members of the Company's senior management team are involved in initiating and maintaining relationships with its private label customers.

SALES TO ELECTRIC AND GAS UTILITIES. Electric and gas utilities provide the Company with an additional distribution channel and the opportunity to develop related applications of its technologies. These utilities are increasingly seeking to enter unregulated industries, including the security systems industry, to increase their profits. This industry offers electric and gas utilities a logical complement to their businesses, as many already have the infrastructure in place to sell, install and repair security and home automation systems and provide monthly monitoring services. Over 60 electric and other utilities are now purchasing the Company's products. The Company has two sales representatives who sell to utilities with support from the Company's field sales force.

INTERNATIONAL SALES

Export sales, primarily to Canada, Europe and Australia, accounted for 18.3%, 13.9% and 8.7% of the Company's net sales for 1998, 1997 and 1996, respectively (see the Consolidated Financial Statements and Notes thereto). The Company believes that international markets offer an important opportunity for sales growth. The Company currently sells its products in over 50 foreign countries through distributors and dealers. The CADDX NX product line was designed specifically with the international market in mind. The NX control panels include special telecom and power interfaces that are acceptable under most regulatory requirements throughout the world. Furthermore, in response to various foreign sales opportunities, the Company has incorporated into its wireless security systems digitized voice response capabilities in several foreign languages and intends to expand its product development and marketing efforts to increase its international sales of wireless security products. The Company is currently designing its next generation of wireless security systems to satisfy the power, telephone, radio and other regulatory standards necessary to sell the systems in the European Community. The Company has also developed a wireless receiver for the CADDX NX hardwire panels, which creates a global hybrid product solution. Because the NX security panels have already gained numerous international approvals, it is helping to accelerate the introduction of ITI wireless sensors in the international market.

SALES TO A SIGNIFICANT CUSTOMER

During the years ended December 31, 1997 and 1996, one customer accounted for 25% and 41%, respectively, of consolidated net sales. This customer accounted for 11% of consolidated accounts receivable at December 31, 1997. No one customer exceeded more than 6% of consolidated sales or accounts receivable for the year ended December 31, 1998.

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PRODUCT DEVELOPMENT

In the years ended December 31, 1998, 1997, and 1996, the Company had research and development expenditures of \$8.0 million, \$7.5 million and \$6.3 million, respectively. The Company's current product development efforts are primarily devoted to continuing the enhancement and expansion of its product lines and technologies.

COMPETITION

The security systems industry is highly competitive, with a large number of manufacturers providing a wide range of products, from simple sensor components to advanced and complete systems. Competition is based primarily on product reliability, the incorporation of advanced technological features, ease of installation, sales support and price. The Company's competitors in the supervised wireless security system industry include Ademco Security Group (a division of Pittway Corporation), Linear Corp. (a subsidiary of Nortek, Inc.) and several smaller manufacturers. The Company also competes with numerous manufacturers of hardwire security systems, including Ademco Security Group, Napco Security Systems, Inc., Detection Systems, Inc., Digital Security Controls Ltd., C&K Components, Silent Knight Security Systems (an affiliate of Cargill Corporation), Aritech Corp. (a subsidiary of Sentrol, Inc.) and Radionics, Inc.

(a subsidiary of Detection Systems, Inc.). Furthermore, the Company may encounter additional competition from future industry entrants. Some of these manufacturers have, and new competitors may have, substantially greater financial and other resources than the Company. While the Company believes that its product development program, innovative and attractive product features, technology and engineering expertise, and established independent dealer network and customer relationships give it a competitive advantage over many other security system manufacturers, there can be no assurance that the Company will continue to develop and market products that will be accepted in the marketplace.

MANUFACTURING

The Company's production processes include printed circuit board assembly, testing and calibration and final assembly and testing. The Company has manufacturing facilities in North St. Paul, Minnesota and Gladewater, Texas. A Mexican contract manufacturing facility, which is dedicated to the Company, assembles less complex, high-volume circuit boards, such as transmitter boards, and sends them to North St. Paul. The Company has invested in various automated printed circuit board assembly and test equipment at its North St. Paul, Gladewater and Mexican facilities to achieve manufacturing cost efficiencies and vertically integrate its production processes. From time to time, the Company uses certain contract manufacturers to perform some of its printed circuit board assembly and may increase its use of such companies to meet any increased demand. Certain of the chips, microprocessors and other products used in the Company's systems are obtained from single sources. If the Company could not obtain these components from these sources, there may be a 16-to 30-week lead time to obtain them from a different supplier. To help prevent delays in the shipment of its products, the Company maintains what it believes to be a sufficient amount of certain components in inventory or has made safety stock program arrangements with the suppliers.

INTELLECTUAL PROPERTY

The Company's success is dependent in part on its proprietary information, technology and know-how. The Company relies on a combination of trade secret and copyright protection and confidentiality agreements to establish and protect its proprietary rights. In addition, the Company holds 21 patents covering various technologies, including its Learn Mode technology, and has several patent applications pending. The Company believes its Learn Mode technology in particular affords it significant competitive advantages because it has allowed the Company to substantially improve the performance and reliability of its products. The Company plans to aggressively protect its patents and other intellectual property and to pursue patents to

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protect its technology. There can be no assurance, however, that the Company will be able to protect its proprietary information, technology and know-how, deter misappropriation of its proprietary rights, or prevent third party development of substantially similar technology and products. In addition, there can be no assurance that any patent applications filed by the Company will result in issued patents or that any patents issued are or will be sufficiently broad to protect the Company's technologies or provide the Company with any material competitive advantages. There also can be no assurance that the patents the Company has obtained in the past or may obtain in the future will not be contested, invalidated or circumvented. See applicable discussions under "Item 3. Legal Proceedings" and the Consolidated Financial Statements and Notes thereto for discussions of current litigation proceedings involving intellectual property issues.

The Company has occasionally received, and may receive in the future, communications from third parties asserting intellectual property rights relating to the Company's products and technologies. Upon receiving such claims, the Company evaluates their merits and risks and on occasion has negotiated licenses where third-party technology was necessary or useful for the development or manufacture of the Company's products. There can be no assurance that third parties will not assert claims against the Company with respect to existing or future products or that any licenses will be available on reasonable terms with respect to any third-party technology. The Company could incur substantial costs in redesigning its products or in defending any legal action taken against it.

GOVERNMENT REGULATION

Substantially all of the components in the Company's security systems require approval by the FCC before the systems may be marketed in the United States. Although the Company has obtained FCC approval of its products in the past, it cannot predict whether it will obtain FCC approvals for components of future products or whether FCC regulations might change with respect to the Company's current or future products. In addition, sales of the Company's products in countries outside of the United States usually are subject to similar types of approvals by regulatory authorities in those countries. The Company also is subject to various federal, state and foreign laws and

regulations pertaining to the use of potentially dangerous material, the discharge of material in the environment and otherwise relating to the protection of the environment. The Company believes it has complied in all material respects with all such laws and regulations.

EMPLOYEES

On December 31, 1998, the Company had 645 full-time employees, consisting of 375 in manufacturing, 88 in engineering and product development, 70 in customer service, 50 in sales, 52 in management and administration and 10 in marketing. These employees do not include the contract workers in the Mexican facility. None of the Company's employees are members of a collective bargaining unit, and the Company's management believes employee relations are good.

ITEM 2. PROPERTIES

The Company's corporate headquarters and its largest manufacturing facility are located in North St. Paul, Minnesota, in two adjacent leased buildings that together provide approximately 148,000 square feet of manufacturing, warehouse and office space. The leases on the North St. Paul facilities expire on September 1, 1999. The Company believes the leases for the facilities can be renewed under acceptable terms. The Company also owns an approximately 33,000 square foot manufacturing and warehouse facility in Gladewater, Texas. Products marketed under the CADDX trademark are manufactured and distributed at the Gladewater facility. In 1998, the Company purchased a parcel of land adjacent to its Gladewater facility and has entered into a contract for the construction of a 31,063 square foot building that will enhance the Company's ability to manufacture CADDX products. The estimated construction cost is \$1,200,000 and the building is scheduled to be completed in June of 1999. The Company also utilizes a contract assembly plant in

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Navajoa, Mexico, consisting of approximately 22,000 square feet devoted exclusively to the Company's manufacturing needs.

The Company leases small warehouse and shipping point facilities in Anaheim, California, Richmond, Virginia and Toronto, Ontario, Canada.

The Company considers its key properties identified above, including the planned expansion in Gladewater, as suitable to its business and, in general, adequate for its current and near-term needs.

ITEM 3. LEGAL PROCEEDINGS

On August 17, 1995, the Company commenced an action for patent infringement against Pittway Corporation and its subsidiary, Ademco Distribution Inc., in the United States District Court for the District of Minnesota. On March 9, 1998, the jury found that the Ademco VISTA Plus/5800 family of wireless security systems infringes the Company's Learn Mode patent and awarded the Company damages of approximately \$36 million for lost profits and royalties. On April 9, 1998, the Court entered an injunction prohibiting Pittway Corporation from manufacturing and marketing the Ademco 5800 series wireless products that infringe the Company's Learn Mode patent and awarded the Company prejudgment interest of approximately \$3 million, bringing the total judgment to approximately \$39 million. Pittway Corporation appealed the verdict. On March 4, 1999, the Federal Circuit Court of Appeals heard oral arguments on the case. The Company anticipates that the appeal will be resolved during the first half of 1999.

Pittway has announced that in 1997 it had "introduced an improved method of enrolling transmitters in its VISTA series of control panels." Pittway calls this new method "QED." While the Company has maintained that Pittway's QED products also infringe the Company's LEARN MODE patent, the judge would not allow the Company to add Pittway's QED products to the action commenced in August of 1995. Accordingly, the Company commenced a second patent infringement lawsuit against Pittway and Ademco Distribution, Inc. on August 3, 1998, for infringement of the Company's Learn Mode patent. The suit was also filed in the United States District Court for the District of Minnesota. Discovery in the second suit has been stayed by agreement of the parties pending resolution of the appeal of the first suit.

In addition, the Company experiences routine litigation in the normal course of its business. The Company does not believe that any of this routine litigation will have a material adverse effect on the financial condition or results of operations of the Company.

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

There were no matters submitted to a vote of security holders during the Company's fourth quarter ended December 31, 1998, or in the first quarter of 1999.

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PART II

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

The Company's Common Stock is traded in the over-the-counter market and is quoted on The Nasdaq National Market under the symbol "ITII." As of February 25, 1999, there were approximately 63 record holders of the Company's Common Stock.

The following table sets forth, on a quarterly basis, the high and low closing sale prices for the Company's Common Stock for the two years ended December 31, 1998:

	HIGH	LOW
	-----	-----
1997		

Quarter:		
First	\$18	\$13-1/4
Second	22-7/8	14-1/8
Third	29	22-13/16
Fourth	28-1/8	21-3/4
1998		

Quarter:		
First	\$26-1/8	\$20
Second	33	26
Third	28-1/2	23
Fourth	32-1/8	24-1/2

The Company has never paid dividends on its Common Stock. The Company presently intends to retain any and all future earnings for the operation and expansion of its business and does not expect to pay any cash dividends on its Common Stock in the foreseeable future. See applicable discussion under "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations -- Liquidity and Capital Resources."

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ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

The financial information set forth below should be read in conjunction with "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Consolidated Financial Statements and Notes thereto.

<TABLE>
<CAPTION>

	YEAR ENDED DECEMBER 31,				
	1998	1997	1996	1995	1994
	-----	-----	-----	-----	-----
	(In thousands, except per share data)				
<S>	<C>	<C>	<C>	<C>	<C>
CONSOLIDATED STATEMENT OF OPERATIONS DATA:					
Net sales	\$ 108,986	\$ 100,999	\$ 93,331	\$ 79,012	\$ 59,127
Cost of goods sold	58,815	53,628	48,217	42,126	32,371
Inventory purchase accounting adjustment(1) .		725			
	-----	-----	-----	-----	-----
Gross profit	50,171	46,646	45,114	36,886	26,756
Operating expenses:					
Marketing, general and administrative	19,405	18,421	15,005	12,982	12,096
Research and development, net	7,974	7,491	6,270	5,178	4,125
Purchased research and development costs(2)		5,200			
Amortization of intangible assets	1,412	1,233	912	912	912
	-----	-----	-----	-----	-----
Operating income	21,380	14,301	22,927	17,814	9,623
Interest income (expense), net	805	627	815	38	(4,325)
Other income (expense), net	49	(122)	5	(13)	13
	-----	-----	-----	-----	-----
Income before income tax expense and extraordinary item	22,234	14,806	23,747	17,839	5,311
Income tax expense(2)	8,004	7,202	8,655	6,488	1,896
	-----	-----	-----	-----	-----
Income before extraordinary item	14,230	7,604	15,092	11,351	3,415
Extraordinary item(3)					820
	-----	-----	-----	-----	-----
Net income	\$ 14,230	\$ 7,604	\$ 15,092	\$ 11,351	\$ 2,595
	=====	=====	=====	=====	=====
Per share amounts, basic:					
Income before extraordinary item	\$ 1.68	\$.91	\$ 1.69	\$ 1.31	\$.61
Extraordinary item(3)					(.15)

Net income	\$ 1.68	\$.91	\$ 1.69	\$ 1.31	\$.46
Weighted average common shares outstanding	8,461	8,394	8,930	8,671	5,624
Per share amounts, diluted:					
Income before extraordinary item	\$ 1.61	\$.87	\$ 1.63	\$ 1.26	\$.52
Extraordinary item(3)					(.12)
Net income	\$ 1.61	\$.87	\$ 1.63	\$ 1.26	\$.40
Weighted average common and common equivalent shares outstanding	8,860	8,705	9,246	9,022	6,515

</TABLE>

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QUARTERLY FINANCIAL DATA
(UNAUDITED)
(IN THOUSANDS, EXCEPT PER SHARE DATA)

	1998				1997			
	FIRST	SECOND	THIRD	FOURTH	FIRST	SECOND	THIRD	FOURTH
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Net sales	\$ 23,914	\$ 27,139	\$ 29,326	\$ 28,607	\$ 23,740	\$ 25,403	\$ 26,468	\$ 25,388
Gross profit (1)	10,864	12,418	13,305	13,584	11,524	11,167	11,952	12,003
Net income (loss) (2)	2,534	3,398	3,956	4,342	3,744	(2,421)	3,189	3,092
Per share amounts:								
Basic(4)	\$.30	\$.40	\$.47	\$.52	\$.45	\$ (.29)	\$.38	\$.37
Diluted(4)	\$.29	\$.38	\$.45	\$.50	\$.44	\$ (.29)	\$.36	\$.35

</TABLE>

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<TABLE>
<CAPTION>

AS OF DECEMBER 31,

	1998	1997	1996	1995	1994
<S>	<C>	<C>	<C>	<C>	<C>
(In thousands)					
CONSOLIDATED BALANCE SHEET DATA:					
Working capital	\$ 43,015	\$ 36,336	\$ 42,047	\$ 34,866	\$ 19,145
Total assets	115,957	103,959	89,794	80,077	64,494
Current liabilities	10,874	8,995	6,056	6,225	7,300
Total debt					4,500
Total liabilities	18,550	16,258	10,468	9,986	14,686
Stockholders' equity	97,407	87,701	79,326	70,091	49,808

</TABLE>

(1) Amount reflects a non-recurring purchase accounting adjustment to cost of goods sold of \$725,000 in the second quarter of the year ended December 31, 1997, which resulted from the sale of inventory which had been written-up to reflect estimated selling price less the sum of estimated costs of completion and selling at the time of the Acquisition.

(2) The Company recorded a non-recurring purchase accounting adjustment in the second quarter of the year ended December 31, 1997, which resulted from the write-off of \$5.2 million for the value assigned to technology in process at the time of the Acquisition. This charge is not deductible for income tax purposes and, as such, no related tax benefit has been recorded as a part of the Company's income tax expense. During the fourth quarter of 1998, the Company recognized a \$140,000 after-tax benefit from the reversal of certain expired customer rebates.

(3) In the fourth quarter of 1994, the Company incurred an extraordinary charge of \$820,000, or \$.12 per share, related to the write-off of unamortized discount and deferred financing charges, net of related income tax benefits of \$462,000, in connection with the conversion of all outstanding warrants and retirement of debt subsequent to its November 24, 1994, initial public offering.

(4) The summation of quarterly per share amounts may not equal the calculation for the full year, as each quarterly calculation is performed discretely.

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

GENERAL

On June 18, 1998, the Board of Directors authorized the repurchase, from time to time, of up to 1,000,000 shares of the Company's common stock in the open market or in private transactions. Total repurchases of 245,200 shares occurred during the third quarter of 1998 under this authorization. This action also canceled the stock repurchase program authorized on November 22, 1996, that allowed for the purchase of up to 900,000 shares of the Company's common stock. The Company purchased 90,000 and 621,500 shares in 1997 and 1996, respectively, under the November 22, 1996, authorization.

On May 22, 1997, the Company completed the cash purchase of the Regency product line and dealer program from the Silent Knight Division of Willknight, Inc., located in Minneapolis, Minnesota, for \$1.8 million. In the event sales of Regency products over the 36-month period ending May 2000 exceed certain levels, a contingent payment of up to \$800,000 will be made. This product line allows the Company to offer an established product that integrates intrusion protection, fire protection and access control. At the time of the acquisition, the Regency dealer program consisted of approximately 150 Regency dealers throughout North America. The purchase price was allocated to the estimated fair value of the assets acquired, primarily to customer lists, which will be amortized over its expected useful life of 10 years.

On April 30, 1997 (the "Acquisition Date"), the Company purchased all of the outstanding stock of CADDX for \$19.0 million in cash. In conjunction with the Acquisition, the Company also purchased from the majority shareholder of CADDX the manufacturing facility leased by CADDX for \$530,000. Immediately following the Acquisition, the corporate name was changed to CADDX Controls, Inc. CADDX, located in Gladewater, Texas, designs, manufactures and markets hardware electronic security systems in the United States and certain international locations.

The Acquisition was accounted for using the purchase method of accounting and, accordingly, the results of operations of CADDX have been included in the Company's financial statements from the effective date, April 30, 1997. The Acquisition cost has been allocated to the assets acquired and liabilities assumed based on their estimated fair values at the Acquisition date, including \$4.0 million to net current assets, \$1.2 million to property and equipment, \$1.25 million to customer lists, principally related to CADDX customers outside the United States, \$2.1 million to net long-term deferred tax liabilities, \$3.75 million to trade names and \$5.2 million to technology under development, leaving a \$5.7 million excess of cash paid (including transaction costs) over net assets acquired. The values assigned to the various identifiable intangible assets were determined based on anticipated discounted after-tax cash flows for the period estimated to encompass the remaining life of the technology existing at the Acquisition date and the expected life cycle of the next generation of technology under development at the Acquisition date. Depreciation periods for property and equipment and amortization periods for trade names, customer lists and the excess of cash paid over net assets acquired are consistent with the Company's existing policies.

At the time of the Acquisition, CADDX had under development technology related to the NX-8 security system and it was not clear whether any of this technology would be commercially acceptable or whether it would function correctly. The development of the NX-8 required several design and engineering innovations, including the creation of special telecom and power interfaces that would be acceptable under any country's regulations anywhere in the world, the development of software to drive these interfaces and a buss structure to allow high speed transmissions over long lines without loss of signal, all within the specified physical space and cost structure contemplated. It was not certain that these design innovations could be accomplished, and failure to achieve any one of these innovations would have caused the NX-8 project to fail. As a result, in May 1997, the Company made a \$5.2 million non-recurring charge to operations for the value assigned to NX-8 technology in process at the time of the Acquisition. The product was introduced in the last half of 1997 and has been commercially successful. Also, subsequent to the Acquisition, the Company included in cost of goods sold in the second quarter of 1997, a \$725,000 non-recurring purchase accounting adjustment which resulted from the sale of inventory which had been written-up to reflect estimated selling price less the sum of estimated costs of completion and sale at the time of the Acquisition.

RESULTS OF OPERATIONS

The following table sets forth, for the periods indicated, the percentage of net sales represented by certain items included in the Consolidated Statements of Operations for the year ended December 31:

	1998	1997	1996
Net sales	100.0%	100.0%	100.0%
Cost of goods sold	54.0	53.1	51.7
Inventory purchase accounting adjustment .		.7	
Gross profit	46.0	46.2	48.3
Operating expenses:			
Marketing, general and administrative ..	17.8	18.2	16.0
Research and development	7.3	7.4	6.7
Purchased research and development costs		5.2	
Amortization of intangible assets	1.3	1.2	1.0
Operating income	19.6%	14.2%	24.6%

Net sales to the Company's ten largest security system customers and to all other customers were as follows for the year ended December 31:

	1998		1997		1996	
	AMOUNT	PERCENT	AMOUNT	PERCENT	AMOUNT	PERCENT
(Dollars in thousands)						
Net sales:						
Ten largest customers.	\$ 35,696	33%	\$ 45,695	45%	\$ 56,030	60%
All other customers...	73,290	67	55,304	55	37,301	40
	\$108,986	100%	\$100,999	100%	\$ 93,331	100%

YEAR ENDED DECEMBER 31, 1998 COMPARED TO YEAR ENDED DECEMBER 31, 1997

NET SALES. Net sales increased by \$8.0 million, or 7.9%, from \$101.0 million for 1997 to \$109.0 million for 1998. The increase in net sales is attributable to business acquisitions and volume increases, primarily reflecting the successful introduction of the Company's new products designed for the mass market portion of the industry.

Net sales for 1997 include eight months of revenue for the CADDX acquisition and the Regency product line. Excluding the effect of the acquisitions and sales to the branch operations of the Company's 1997 largest customer, sales to all other customers increased 26.6% from 1997. Sales to this customer's branch operations declined from approximately 21% of total sales in 1997 to less than 1% of total sales in 1998.

GROSS PROFIT. Gross profit increased from \$46.6 million for 1997 to \$50.2 million for 1998, primarily due to the increased sales in 1998. As a percentage of sales, gross margin decreased from 46.2% in 1997 to 46.0% in 1998. This decrease was primarily due to excess capacity in the Company's North St. Paul manufacturing facility in the first half of the year, which resulted from the loss of business from the Company's largest customer in 1997, and due to additional employee benefits in the CADDX subsidiary that were planned at the time of the acquisition but not implemented until January 1998. In addition, 1997 margins were negatively impacted by the purchase accounting adjustment of \$725,000, or .7% of sales, which resulted from the sale of inventory that had been written-up at the time of the Acquisition.

MARKETING, GENERAL AND ADMINISTRATIVE EXPENSES. Marketing, general and administrative expenses increased from \$18.4 million for 1997 to \$19.4 million for 1998 due to 1998 expenses reflecting a full year of the CADDX acquisition as compared to eight months of such expenses in 1997. Expressed as a percentage of net sales, these expenses decreased from 18.2% for 1997 to 17.8% for 1998. This decrease can be attributed to increased sales and the fact that a significant portion of these expenses are of a fixed nature.

RESEARCH AND DEVELOPMENT EXPENSE. Research and development expense increased from \$7.5 million for 1997 to \$8.0 million for 1998 as the Company continued its emphasis on research and development. New products introduced in 1998 include Concord(TM), a modular hybrid control panel that allows dealers to start with a low-cost hardware platform with the ability to add wireless sensors, the NX-4 and NX-6 systems that are smaller versions of Company's successful NX-8 panel and the release of upgrades to the feature content of the Company's traditional control panels and central station receiver. The Company also continues development on its Advent(R) platform, which is designed for the commercial burglary and fire market. The Company anticipates that it will continue this high level of development activity in 1999.

PURCHASED RESEARCH AND DEVELOPMENT COSTS. During the second quarter of 1997, in conjunction with the Acquisition, the Company recorded a \$5.2 million non-recurring charge to operations for value assigned at the Acquisition date to purchased technology under development.

AMORTIZATION OF INTANGIBLE ASSETS. Amortization of acquisition-related intangible assets increased from \$1.2 million for 1997 to \$1.4 million for 1998. This increase is attributable to the Company's second quarter 1997 acquisitions.

NET INTEREST INCOME. Net interest income increased from \$627,000 for 1997 to \$805,000 for 1998. The Company had utilized a substantial portion of its cash and cash equivalents in late 1996 and early 1997 to purchase the Company's common stock through its stock repurchase program and for the second quarter 1997 acquisitions. The Company had steadily increased its cash balances throughout 1998 until the third quarter when the Company repurchased, under its June 18, 1998, stock repurchase program, 245,200 shares of its common stock for a total of \$6.3 million. In addition, the Company has increased participation in the ITI Finance program. Interest earned under this program increased from \$159,000 in 1997 to \$364,000 in 1998.

INCOME TAX EXPENSE. Income tax expense increased from \$7.2 million for 1997 to \$8.0 million for 1998. The Company's effective income tax rates for these periods vary from the statutory rate primarily due to the non-deductibility for income tax purposes of amortization of excess of cost over net assets acquired, state income taxes net of tax benefit, and other tax credits. The effective rate in 1997 was also impacted by the nondeductibility of the purchased research and development costs.

YEAR ENDED DECEMBER 31, 1997 COMPARED TO YEAR ENDED DECEMBER 31, 1996

NET SALES. Net sales increased by \$7.7 million, or 8.2%, from \$93.3 million for 1996 to \$101.0 million for 1997. The increase in net sales is primarily attributable to business acquisitions and volume increases, as prices remained relatively stable over these periods.

Net sales for 1997 include approximately eight months of revenue for the CADDX acquisition and the Regency product line. Excluding the effect of the acquisitions and sales to the Company's largest customer's branch operations, sales to all other customers increased over 16% from 1996. Sales to the Company's largest customer's branch operations declined from approximately 40% of total sales in 1996 to 21% of total sales in 1997.

GROSS PROFIT. Gross profit increased from \$45.1 million for 1996 to \$46.6 million for 1997 but decreased as a percentage of net sales from 48.3% in 1996 to 46.2% in 1997. This decrease was primarily due to the fact that the CADDX business has lower gross margins than the Company's traditional wireless business as the CADDX product line

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is sold primarily through distribution rather than direct to dealers, and hardware products have lower margins as compared to wireless products. In addition, margins were negatively impacted by the purchase accounting adjustment of \$725,000, or .7% of sales, which resulted from the sale of inventory that had been written-up at the time of the Acquisition. Also, with the reduction of business from the branch operations of the Company's largest customer, the Company experienced excess capacity in its wireless manufacturing facility in the second half of the year.

MARKETING, GENERAL AND ADMINISTRATIVE EXPENSES. Marketing, general and administrative expenses increased from \$15.0 million for 1996 to \$18.4 million for 1997 and increased as a percentage of net sales from 16.0% to 18.2%. The increase was primarily due to the addition of CADDX, increased employment costs in the sales and marketing areas, marketing costs associated with new product introductions and a \$300,000 charge for costs associated with a change in distribution arrangements in Australia.

RESEARCH AND DEVELOPMENT EXPENSE. Research and development expense increased from \$6.3 million for 1996 to \$7.5 million for 1997 as the Company continued its emphasis on research and development. New products introduced in 1997 included the Quik Bridge product line, the Simon security system, the CADDX NX-8 security system and related sensors. The Company anticipates that it will continue this high level of development activity.

PURCHASED RESEARCH AND DEVELOPMENT COSTS. During the second quarter of 1997, in conjunction with the Acquisition, the Company recorded a \$5.2 million non-recurring charge to operations for value assigned at the Acquisition date to purchased technology under development.

AMORTIZATION OF INTANGIBLE ASSETS. Amortization of acquisition-related intangible assets increased from \$912,000 for 1996 to \$1,233,000 for 1997. This increase is attributable to the Company's second quarter 1997 acquisitions.

NET INTEREST INCOME. Net interest income decreased from \$815,000 for 1996 to \$627,000 for 1997 as cash and cash equivalents were used in late 1996 and early 1997 to purchase the Company's common stock through its stock repurchase program and for the second quarter 1997 acquisitions.

INCOME TAX EXPENSE. Income tax expense decreased from \$8.7 million for 1996 to \$7.2 million for 1997. The Company's effective income tax rates for these periods vary from the statutory rate primarily due to the non-deductibility for income tax purposes of both the purchased research and development cost and amortization of excess of cost over net assets acquired.

LIQUIDITY AND CAPITAL RESOURCES

On April 30, 1997, the Company entered into an unsecured \$15.0 million bank revolving credit facility. The facility provides for interest calculated, at the Company's option, at LIBOR plus 1.0% or the commercial bank's base rate less 1.25%. In addition, the facility requires a commitment fee of 0.1% per annum on the unused portion of the facility. The agreement allows for payment of annual dividends equal to 25% of the Company's net income for the immediately preceding fiscal year and requires the maintenance of specified financial ratios and minimum net worth. No amounts were outstanding under this facility at December 31, 1998, or at any time during 1998.

The Company has funded its operations primarily with cash from operations. The Company generated net cash from operating activities of \$9.4 million for 1998 and \$18.0 million for 1997. Net cash provided by operating activities for 1998 resulted primarily from \$14.2 million of net income and \$3.8 million of depreciation and amortization charges. The changes in operating assets and liabilities resulted in a use of cash of \$9.6 million, which included a \$4.9 million increase in accounts receivable, a \$3.2 million increase in inventory and a \$2.8 million increase in notes receivable from the Company's dealer financing program, less \$1.8 million source of cash from an increase in accounts payable. Accounts receivable has increased primarily due to the Company's sales shifting away from a few, high-volume installation companies to numerous smaller dealers, coupled with a 12.7% or \$3.2 million increase in sales in the fourth

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quarter of 1998 as compared to the fourth quarter of 1997. The growth in inventory was in support of these higher sales volumes and expanded product offerings.

During 1998, the Company used \$5.1 million for investing activities, consisting primarily of the purchase of property and equipment totaling \$3.1 million and other intangible assets, including ongoing patent defense cost, of \$1.8 million. The Company expects that purchases of property and equipment in 1999, including an estimated \$1.2 million for an additional manufacturing facility in Gladewater, Texas, scheduled to be completed in the second quarter of 1999, will be approximately \$4.5 million.

Net cash used in financing activities was \$4.5 million for 1998. Cash totaling \$6.3 million was used to repurchase 245,200 shares of the Company's common stock, which was partially offset by the \$1.8 million in proceeds paid to the Company from the exercise of stock options.

A substantial amount of the Company's working capital is invested in accounts receivable and inventories. The Company periodically reviews accounts receivable for non-collectibility and inventories for obsolescence and establishes allowances it believes are appropriate. In addition, the Company periodically assesses the recoverability of intangible assets based on undiscounted cash flows.

The Company believes that cash flow from operations and funds currently available will be adequate to fund its working capital and capital expenditure requirements for the foreseeable future.

LITIGATION

On August 17, 1995, the Company commenced an action for patent infringement against Pittway Corporation and its subsidiary, Ademco Distribution Inc., in the United States District Court for the District of Minnesota. On March 9, 1998, the jury found that the Ademco VISTA Plus/5800 family of wireless security systems infringes the Company's Learn Mode patent and awarded the Company damages of approximately \$36 million for lost profits and royalties. On April 9, 1998, the Court entered an injunction prohibiting Pittway Corporation from manufacturing and marketing the Ademco 5800 series wireless products that infringe the Company's LEARN MODE patent and awarded the Company prejudgment interest of approximately \$3 million, bringing the total judgment to approximately \$39 million. Pittway Corporation appealed the verdict. On March 4, 1999, the Federal Circuit Court of Appeals heard oral arguments on the case. The Company anticipates that the appeal will be resolved during the first half of 1999.

Pittway has announced that in 1997 it had "introduced an improved method of enrolling transmitters in its VISTA series of control panels." Pittway calls this new method "QED." While the Company has maintained that Pittway's QED products also infringe the Company's LEARN MODE patent, the judge would not allow the Company to add Pittway's QED products to the action commenced in August of 1995. Accordingly, the Company commenced a second patent infringement lawsuit against Pittway and Ademco Distribution, Inc. on August 3, 1998, for infringement of the Company's Learn Mode patent. The suit was also filed in the United States District Court for the District of Minnesota. Discovery in the second suit has been stayed by agreement of the parties pending resolution of the appeal of the first suit.

Costs associated with these actions and related appeal are being capitalized as a patent asset associated with the related technology. As of December 31, 1998, the Company has capitalized \$4.8 million of costs related to these lawsuits, which are included in other intangible assets on the consolidated balance sheet.

EFFECT OF INFLATION AND FOREIGN CURRENCY TRANSACTIONS

The Company believes that inflation and foreign currency fluctuations have not had a significant effect on its operations. Currently, the Company does not conduct any transactions or maintain any accounting records in any European currency. As such, the Company anticipates that there will be no material effect on its operations as a result of the conversion by eleven member states of the European Union to a common currency on January 1, 1999.

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FINANCIAL INSTRUMENTS

The only financial instruments the Company maintains are in accounts receivable and notes receivable. The Company believes that the interest rate risk related to these accounts is not significant. The Company manages the risk associated with these accounts through periodic reviews of the carrying value for non-collectability and establishment of appropriate allowances in connection with the Company's internal controls and policies. The Company does not enter into hedging or derivative instruments.

IMPACT OF THE YEAR 2000 ISSUE

The Year 2000 issue is the inability of many computer programs to correctly identify dates occurring after December 31, 1999, because they use two digits rather than four digits to identify years. This could cause a computer system failure or miscalculations, resulting in disruptions of operations including, among other things, a temporary inability to process transactions or engage in similar normal business activities.

The Company's assessment of the Year 2000 issue is substantially complete. The Company believes that with modifications to existing software and conversions to new software, the Year 2000 issue will not pose significant operational problems for its computer systems or the Company and that the cost of such modifications will not be significant.

In addition to internal Year 2000 remediation activities, the Company is in contact with key suppliers and customers to ensure no interruption in the relationship between the Company and these important third parties from the Year 2000 issue. A comprehensive survey of all vendors and customers has not been, nor will one be, undertaken. All efforts thus far have been focused on key vendors and customers. If these third parties do not convert their systems in a timely manner and in a way that is compatible with the Company's systems, the Year 2000 issue could have a material adverse effect on Company operations. The Company believes that its actions with key suppliers and customers will minimize these risks.

The vast majority of the Company's products are not date-sensitive. The Company has collected information on current and discontinued date-sensitive products. This information is available to customers as of the date of this filing.

At this time, the Company does not have in place a comprehensive, global contingency plan relative to potential Year 2000 disruptions. Rather, each significant system either has been repaired and tested, or is being reworked. For systems currently being reworked, contingency plans exist to address unforeseen problems.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

See Consolidated Financial Statements and Notes thereto commencing at Page F-1.

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

There have been no changes in, or disagreements with, the accountants for the Company which require reporting under Item 9.

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PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by Item 10 is incorporated herein by reference to the sections entitled "Proposal 1 -- Election of Directors -- General -- Information Regarding Nominees for Election as Directors -- Board Actions and Committees" and "Executive Compensation -- Information Regarding Certain Executive Officers" contained in the Company's Proxy Statement to be filed with the Commission.

ITEM 11. EXECUTIVE COMPENSATION

The information required by Item 11 is incorporated herein by reference to the sections entitled "Executive Compensation -- Compensation Committee Interlocks and Insider Participation in Compensation Decisions" -- "Election of Directors -- Compensation of Directors," -- "Compliance with Section 16(a) of the Securities Exchange Act of 1934," "Execution Compensation -- Report of the Compensation Committee," and "Performance Graph" contained in the Proxy Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by Item 12 is incorporated herein by reference to the section entitled "Security Ownership of Management and Certain Beneficial Owners" contained in the Proxy Statement.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

No transactions have occurred that require reporting under Item 13.

PART IV

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

(a) The financial statements filed as part of this Annual Report on Form 10-K are described in the Index to Financial Statements appearing on page F-1.

(b) No Current Reports on Form 8-K were filed by the Company during the fourth quarter ended December 31, 1998, or from December 31, 1998 to the date of this Annual Report on Form 10-K.

(c) The following exhibits are hereby filed as part of this Annual Report on Form 10-K:

10.1 Long-Term Stock Incentive Plan (1992) (Amended and Restated as of May 13, 1998).

10.2 Supply Agreement between Edison Select, an Edison International Company, and Interactive Technologies, Inc. dated December 15, 1998.

10.3 Lease Agreement between Aetna Institutional Investors I Limited Partnership and Interactive Technologies, Inc. dated January 1, 1999.

10.4 Lease Agreement between G.D. Package Machinery, Inc. and Interactive Technologies, Inc. dated June 1, 1998.

10.5 Construction Agreement between Noah's Construction, Inc. and CADDX Controls, Inc. dated October 8, 1998.

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23.1 Consent of PricewaterhouseCoopers LLP

27.1 Financial Data Schedule (for electronic filing purposes only).

The following exhibits are hereby incorporated into this Annual Report on Form 10-K by reference to exhibits filed with the Company's Registration Statement on Form S-1, as amended, which became effective on November 22, 1994 (the "Registration Statement"); the exhibit number assigned to each exhibit as filed with the Registration Statement is set forth in parentheses after the description of the exhibit:

Exhibit No. Description

-
- 2.1 Stock Purchase and Sale Agreement by and among Professional Services Industries Holding, Inc., Interactive Technologies Holding Corporation ("ITHC"), and the Company dated March 25, 1992. (Exhibit 2.1)
 - 2.2 Amendment No. 1 to Stock Purchase and Sale Agreement dated as of April 1, 1992. (Exhibit 2.2)
 - 2.3 Amendment No. 2 to Stock Purchase and Sale Agreement dated as of May 11, 1992. (Exhibit 2.3)
 - 2.4 Warranty and Indemnification Agreement by and between the Company and Professional Services Industries Holding, Inc. (Exhibit 2.4)
 - 2.5 Guaranty of ADIA S.A. in favor of the Company dated March 31, 1992. (Exhibit 2.5)
 - 2.6 Stockholders Agreement dated as of May 11, 1992, by and among the Company and the investors named therein. (Exhibit 2.6)
 - 2.7 Stock Subscription Agreement dated as of May 11, 1992, by and among the Company and the purchasers listed on the signature pages thereof. (Exhibit 2.7)
 - 2.8 Stock Purchase Agreement dated as of March 25, 1992, by and among ITHC and the individuals listed on Exhibit A attached thereto. (Exhibit 2.8)
 - 2.9 Shareholders' Agreement dated as of March 1, 1989, by and among ITHC and the shareholders listed on Schedule A attached thereto. (Exhibit 2.9)
 - 3.2 Certificate of Incorporation of the Company, as amended, in effect on the date hereof. (Exhibit 3.1)
 - 3.3 Bylaws of the Company in effect as of the date hereof. (Exhibit 3.2)
 - 4.1 Form of Common Stock Certificate. (Exhibit 4.1)
 - 10.6 Adoption Agreement for Qualified Profit Sharing and 401(K) Plan. (Exhibit 10.7)
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 - 10.7 Securities Purchase Agreement dated as of May 11, 1992, by and among the Company and TCW Special Placements Fund III, Sun Life Insurance Company, The Lincoln National Convertible Securities Fund, Inc., TCW Capital, and The Lincoln National Income Fund, Inc. (the "Warrantholders"). (Exhibit 10.16)
 - 10.8 First Amendment to Securities Purchase Agreement dated as of June 15, 1993, among the Company and Warrantholders. (Exhibit 10.17)
 - 10.9 Second Amendment to Securities Purchase Agreement dated as of December 23, 1993, among the Company and Warrantholders. (Exhibit 10.18)
 - 10.10 Letter Agreement dated March 15, 1993, by and between Thomas L. Auth and the Company. (Exhibit 10.33)
 - 10.11 Letter Agreement dated March 15, 1993, by

and between Charles E. Briskey and the Company. (Exhibit 10.35)

- 10.12 Memorandum of Agreement dated August 16, 1989, between Interactive Technologies, Inc. and Mo-Mex Corporation. (Exhibit 10.43)
- 10.13 Settlement Agreement and Release between Atrix International, Inc. and Interactive Technologies, Inc. and License Agreement between Atrix International, Inc. and Interactive Technologies, Inc. (Exhibit 10.48).

The following exhibits are hereby incorporated into this Annual Report on Form 10-K by reference to exhibits filed with the Company's Annual Report on Form 10-K for the year ended December 31, 1996 (the "1996 Form 10-K"); the exhibit number assigned to each exhibit as filed with the 1996 Form 10-K is set forth in parentheses after the description of the exhibit:

Exhibit No. Description

- 10.14 Strategic Supplier Agreement No. FD1106 between Interactive Technologies, Inc. and Honeywell Inc. dated November 20, 1996. (Exhibit 10.1)
- 10.15 Letter Agreement dated December 23, 1996, between ADT Security Systems, Inc. and Interactive Technologies, Inc. (Exhibit 10.2)

The following exhibit is hereby incorporated into this Annual Report on Form 10-K by reference to Exhibit 4.1 to the Registration Statement on Form 8-A filed by the Company with the Commission on December 6, 1996:

Exhibit No. Description

- 4.2 Rights Agreement dated November 27, 1997, by and between ITI Technologies, Inc. and Norwest Bank Minnesota, N.A.

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The following exhibit is hereby incorporated into this Annual Report on Form 10-K by reference to Exhibit 2 to the Current Report on Form 8-K filed by the Company with the Commission on April 30, 1997:

Exhibit No. Description

- 10.16 Stock Purchase and Sale Agreement dated April 4, 1997, by and among ITI, CADDX and the Shareholders.

The following exhibits are hereby incorporated into this Annual Report on Form 10-K by reference to exhibits filed with the Company's Annual Report on Form 10-K for the year ended December 31, 1997 (the "1997 Form 10-K"); the exhibit number assigned to each exhibit as filed with the 1997 Form 10-K is set forth in parentheses after the description of the exhibit.

3.4 Certificate of Amendment of Certificate of Incorporation filed with the Secretary of State of the State of Delaware on May 22, 1997. (Exhibit 3.1)

10.17 Real Estate Sales Contract dated April 30, 1997, between Kenneth T. Lewis and CADDX-CADDI Controls, Inc. (Exhibit 10.1)

10.18 Employment Agreement dated April 30, 1997, between CADDX Controls, Inc. and Joe Hurst. (Exhibit 10.2)

10.19 Noncompetition Agreement dated April 30, 1997, between ITI Technologies, Inc. and Joe Hurst. (Exhibit 10.3)

10.20 Revolving Credit Agreement dated April 30, 1997, between ITI Technologies, Inc. and Norwest Bank Minnesota, National Association. (Exhibit 10.4)

10.21 Compatibility Agreement dated June 3, 1997,

between Prince Corporation and Interactive Technologies, Inc. (Exhibit 10.6)

10.22 Trademark License Agreement dated June 3, 1997, between Prince Corporation and Interactive Technologies, Inc. (Exhibit 10.7)

10.23 Development and Supply Agreement between Interactive Technologies, Inc. and Westsec, Inc. d/b/a Westar Security Services dated June 20, 1997. (Exhibit 10.8)

10.24 Form of Exchange Agreement used in connection with the exchange of options issued to Nonemployee Directors under the Company's Nonemployee Director Stock Option Plan. (Exhibit 10.9)

10.25 Form of Exchange Agreement used in connection with the exchange of Series C Stock Options. (Exhibit 10.10)

10.26 Form of Consent to Award Modification used in connection with the repricing of Series D and E Stock Options. (Exhibit 10.11)

(d) The following report and consolidated financial statement schedule are filed as part of this Annual Report on Form 10-K: Schedule II -- Valuation and Qualifying Accounts and the Report of Independent Accountants thereon.

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INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Stockholders of
ITI Technologies, Inc.:

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of operations, stockholders' equity and cash flows present fairly, in all material respects, the financial position of ITI Technologies, Inc. as of December 31, 1998 and 1997, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles. 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 generally accepted auditing standards which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

/s/ PricewaterhouseCoopers LLP

PRICEWATERHOUSECOOPERS LLP

Minneapolis, Minnesota
March 23, 1999

ITI TECHNOLOGIES, INC.
CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31
(IN THOUSANDS, EXCEPT PER SHARE DATA)

<TABLE> <CAPTION>	1998	1997	1996
<S>	<C>	<C>	<C>
Net sales	\$ 108,986	\$ 100,999	\$ 93,331
Cost of goods sold	58,815	53,628	48,217
Inventory purchase accounting adjustment		725	
	-----	-----	-----
Gross profit	50,171	46,646	45,114
Operating expenses:			
Marketing, general and administrative	19,405	18,421	15,005
Research and development	7,974	7,491	6,270
Purchased research and development costs		5,200	
Amortization of intangible assets	1,412	1,233	912
	-----	-----	-----
Operating income	21,380	14,301	22,927
Other income (expense):			
Interest, net	805	627	815
Other, net	49	(122)	5
	-----	-----	-----
Income before income tax expense	22,234	14,806	23,747
Income tax expense	8,004	7,202	8,655
	-----	-----	-----
Net income	\$ 14,230	\$ 7,604	\$ 15,092
	=====	=====	=====
Per share amounts:			
Basic	\$ 1.68	\$.91	\$ 1.69
Weighted average common shares outstanding - basic	8,461	8,394	8,930
Diluted	\$ 1.61	\$.87	\$ 1.63
Weighted average common and common equivalent shares outstanding - diluted	8,860	8,705	9,246

</TABLE>

The accompanying notes are an integral part of the consolidated financial statements.

ITI TECHNOLOGIES, INC.
CONSOLIDATED BALANCE SHEET
AS OF DECEMBER 31
(IN THOUSANDS, EXCEPT PER SHARE DATA)

<TABLE> <CAPTION>	ASSETS	
<S>	1998	1997
<CAPTION>	<C>	<C>
Current assets:		
Cash and cash equivalents	\$ 5,594	\$ 5,838
Accounts receivable	19,037	14,510
Inventories	25,201	21,962
Deferred income taxes	1,223	1,300
Other current assets	2,834	1,721
	-----	-----
Total current assets	53,889	45,331
Property and equipment	10,647	9,825
Excess of cost over net assets acquired	27,576	28,380
Other intangible assets	19,897	18,834
Notes receivable, net of current portion	3,948	1,589
	-----	-----
Total assets	\$ 115,957	\$ 103,959
	=====	=====
	LIABILITIES AND STOCKHOLDERS' EQUITY	
Current liabilities:		
Accounts payable	\$ 6,874	\$ 5,108
Accrued wages	2,045	1,880

Other accrued expenses	1,955	2,007
Total current liabilities	10,874	8,995
Income taxes	7,676	7,263
Total liabilities	18,550	16,258
Commitments and contingencies		
Stockholders' equity:		
Common stock (\$.01 par value; 30,000 shares authorized; 9,304 shares issued, 8,347 shares outstanding in 1998; 9,190 shares issued, 8,478 shares outstanding in 1997)	93	92
Additional paid-in capital	76,368	74,575
Retained earnings	36,325	22,095
Treasury stock, at cost (957 shares in 1998, 712 shares in 1997)	(15,379)	(9,061)
Total stockholders' equity	97,407	87,701
Total liabilities and stockholders' equity	\$ 115,957	\$ 103,959

</TABLE>

The accompanying notes are an integral part of the consolidated financial statements.

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ITI TECHNOLOGIES, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31
(IN THOUSANDS)

<TABLE>

<CAPTION>

	1998	1997	1996
	-----	-----	-----
<S>	<C>	<C>	<C>
OPERATING ACTIVITIES:			
Net income	\$ 14,230	\$ 7,604	\$ 15,092
Adjustments to reconcile net income to net cash provided by operating activities:			
Amortization of intangible assets	1,518	1,329	1,105
Depreciation and amortization	2,258	1,802	1,170
Provision for doubtful accounts	399	657	385
Inventory purchase accounting adjustment		725	
Purchased research and development costs		5,200	
Deferred income taxes	619	250	988
Changes in operating assets and liabilities:			
Accounts receivable	(4,926)	1,603	(1,634)
Inventories	(3,239)	(2,729)	(2,150)
Financing notes receivable	(2,762)	(737)	(304)
Other current assets	(447)	596	(349)
Accounts payable	1,766	1,370	(1,118)
Accrued wages and other accrued expenses	113	235	949
Other liabilities	(129)	100	118
Net cash provided by operating activities	9,400	18,005	14,252
INVESTING ACTIVITIES:			
Additions to property and equipment	(3,080)	(2,790)	(3,722)
Additions to other intangible assets	(1,777)	(2,004)	(1,258)
Issuance of notes receivable	(263)	(974)	
Acquisitions of businesses, net of cash acquired		(20,522)	
Net cash used in investing activities	(5,120)	(26,290)	(4,980)
FINANCING ACTIVITIES:			
Proceeds from revolving credit agreement		6,310	
Payments of revolving credit agreement		(6,310)	
Proceeds from exercise of employee stock options	1,794	2,166	1,809
Payments for treasury stock	(6,318)	(1,395)	(7,666)
Net cash provided by (used in) financing activities	(4,524)	771	(5,857)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(244)	(7,514)	3,415
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	5,838	13,352	9,937
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 5,594	\$ 5,838	\$ 13,352

</TABLE>

The accompanying notes are an integral part of the consolidated financial statements.

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ITI TECHNOLOGIES, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(IN THOUSANDS)

<TABLE>

	Common Stock		Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Treasury Stock		Total Stockholders' Equity
	Shares	Amount			Shares	Amount	
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Balance at December 31, 1995 ...	8,915	\$ 89	\$ 70,603	\$ (601)			\$ 70,091
Options exercised, including tax benefits of \$1,251	121	1	1,808				1,809
Purchase of treasury stock					(622)	\$ (7,666)	(7,666)
Net income				15,092			15,092
Balance at December 31, 1996 ...	9,036	90	72,411	14,491	(622)	(7,666)	79,326
Options exercised, including tax benefits of \$957	154	2	2,164				2,166
Purchase of treasury stock					(90)	(1,395)	(1,395)
Net income				7,604			7,604
Balance at December 31, 1997 ...	9,190	92	74,575	22,095	(712)	(9,061)	87,701
Options exercised, including tax benefits of \$813	114	1	1,793				1,794
Purchase of treasury stock					(245)	(6,318)	(6,318)
Net income				14,230			14,230
Balance at December 31, 1998 ...	9,304	\$ 93	\$ 76,368	\$ 36,325	(957)	\$ (15,379)	\$ 97,407

</TABLE>

The accompanying notes are an integral part of the consolidated financial statements.

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ITI TECHNOLOGIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

DESCRIPTION OF BUSINESS

ITI Technologies, Inc. and its wholly owned subsidiaries (the "Company"), operating in one business segment, designs, manufactures and markets electronic security products and access control systems for the residential and commercial marketplace. The Company also has an ongoing research and development program which focuses its efforts on developing new and improved security systems at lower costs and on utilizing its technology base to develop products for related markets. The Company's products are sold through various channels, including a direct sales force to independent dealers and through regional, national and international distributors. In addition, the Company manufactures products on a private label basis for large security system installation companies. These customers are located primarily throughout North America, Europe and Australia.

PRINCIPLES OF CONSOLIDATION

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

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, 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 those estimates.

RECLASSIFICATIONS

Certain amounts in the 1997 and 1996 financial statements have been reclassified to conform with 1998 presentation. These reclassifications had no impact on previously reported net income or stockholders' equity.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

CASH AND CASH EQUIVALENTS

Cash equivalents include short-term investments with original maturities of three months or less. The Company's cash and cash equivalents are concentrated primarily in one financial institution.

INVENTORIES

Inventories are stated at the lower of cost or market, with cost determined on a first-in, first-out method.

NOTES RECEIVABLE

The Company's ITI Finance subsidiary records a note receivable in connection with the financing of certain customers' equipment purchases. These notes receivable have terms between three and six years. Principal and interest payments are primarily received on a monthly basis. The Company accrues interest monthly and periodically reviews the carrying value of these receivables for non-collectability and establishes appropriate allowances.

PROPERTY AND EQUIPMENT

Property and equipment are recorded at cost. Depreciation and amortization of property and equipment is computed using the straight-line method over the estimated useful lives of the assets, ranging from three to seven years. The costs and related accumulated depreciation and amortization on asset disposals are removed from the accounts and any gain or loss is included in operations.

INTANGIBLE ASSETS

The excess of acquisition cost over amounts assigned to the net identifiable assets acquired in the Company's various acquisitions are being amortized on a straight-line basis over forty years. Total accumulated amortization at December 31, 1998 and 1997 was \$4,614,000 and \$3,810,000, respectively.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Other identifiable intangible assets include value assigned to existing technology, trademarks, trade names and customer lists acquired, deferred financing costs, patents, including litigation cost associated with defending a patent, and other intangibles. Value assigned to trademarks purchased are amortized on a straight-line basis over an estimated useful life of forty years. Customer lists are amortized over their estimated useful lives, which range from ten to fifteen years. Patents and other intangibles are carried at cost less accumulated amortization calculated on a straight-line basis over their estimated useful lives, which range from eighteen months to twenty years.

The Company periodically evaluates the carrying value its long lived assets based upon current and anticipated undiscounted cash flows.

INCOME TAXES

Deferred income taxes result from temporary differences between financial reporting and income tax reporting based on enacted rates in effect for the periods in which these differences are expected to reverse. Income tax expense is the tax payable for the current period plus the change during the period in deferred tax assets and liabilities.

REVENUE RECOGNITION

Sales are recognized at the date of product shipment. Estimated warranty costs are provided for at the time of the related sales.

EARNINGS PER SHARE

The Company calculated basic and dilutive earnings per share as follows for the years ended December 31 (in thousands, except per share data):

	1998	1997	1996
Net income	\$14,230	\$ 7,604	\$15,092
Weighted average shares outstanding:			
Basic (actual shares outstanding)	8,461	8,394	8,930
Effect of dilutive options	399	311	316
Diluted	8,860	8,705	9,246
Per share amounts:			
Basic	\$ 1.68	\$.91	\$ 1.69
Diluted	\$ 1.61	\$.87	\$ 1.63

The only dilutive effect on earnings results from the assumed exercise of stock options outstanding under the Company's Stock Incentive Plan. Various options to purchase shares of the Company's common stock (the "Common Stock") were not included in the computation of diluted earnings per share

because the options' exercise price was greater than the average market price of the Common Stock. These options expire on various dates through 2008. The weighted average number of options excluded in the computation of diluted earnings per share and their associated exercise prices were as follows for the years ended December 31 (in thousands, except per share data):

	1998	1997	1996
	-----	-----	-----
Weighted average options excluded	265	383	189
Exercise price range:			
Low	\$ 26.75	\$ 16.50	\$ 22.50
High	\$ 30.75	\$ 33.50	\$ 33.50

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3. ACQUISITIONS

On May 22, 1997, the Company completed the cash purchase of the Regency product line and dealer program from the Silent Knight Division of Willknight, Inc., located in Minneapolis, Minnesota, for \$1.8 million. In the event sales of Regency products over the 36-month period ending May 2000 exceed certain levels, a contingent payment of up to \$800,000 will be made. This product line allows the Company to offer an established product that integrates intrusion protection, fire protection and access control. At the time of acquisition, the Regency dealer program consisted of approximately 150 Regency dealers throughout North America. The purchase price was allocated to the estimated fair value of the assets acquired, primarily to customer lists, which will be amortized over its expected useful life of 10 years.

On April 30, 1997, the Company purchased all of the outstanding stock of CADDX-CADDI Controls, Inc. ("CADDX") for \$19.0 million in cash (the "Acquisition"). In conjunction with the Acquisition, the Company also purchased from the majority shareholder of CADDX the manufacturing facility leased by CADDX for \$530,000. Immediately following the Acquisition, the corporate name was changed to CADDX Controls, Inc. CADDX, located in Gladewater, Texas, designs, manufactures and markets hardwire electronic security systems in the United States and certain international locations.

The Acquisition was accounted for using the purchase method of accounting and, accordingly, the results of operations of CADDX have been included in these financial statements from the effective date, April 30, 1997. The Acquisition cost has been allocated to the assets acquired and liabilities assumed based on their estimated fair values at the Acquisition date, including \$4.0 million to net current assets, \$1.2 million to property and equipment, \$1.25 million to customer lists (principally related to CADDX customers outside the United States), \$2.1 million to net long-term deferred tax liabilities, \$3.75 million to trade names and \$5.2 million to technology under development, leaving a \$5.7 million excess of cash paid (including transaction costs) over net assets acquired. The values assigned to the various identifiable intangible assets were determined based on anticipated discounted after-tax cash flows for the period estimated to encompass the remaining life of the technology existing at the Acquisition date and the expected life cycle of the next generation of technology under development at the Acquisition date. Depreciation periods for property and equipment and amortization periods for trade names, customer lists and the excess of cash paid over net assets acquired are consistent with ITI's existing policies.

At the time of the Acquisition, CADDX had under development technology related to the NX-8 security system and it was not clear whether any of this technology would be commercially acceptable or whether it would function correctly. The development of the NX-8 required several design and engineering innovations, including the creation of special telecom and power interfaces that would be acceptable under any country's regulations anywhere in the world, the development of software to drive these interfaces and a buss structure to allow high speed transmissions over long lines without loss of signal, all within the specified physical space and cost structure contemplated. It was not certain that these design innovations could be accomplished, and failure to achieve any one of these innovations would have caused the NX-8 project to fail. As a result, in May 1997, the Company made a \$5.2 million non-recurring charge to operations for the value assigned to NX-8 technology in process at the time of the Acquisition. The product was introduced in the last half of 1997 and has been commercially successful. Also, subsequent to the Acquisition, the Company included in cost of goods sold, in the second quarter of 1997, a \$725,000 non-recurring purchase accounting adjustment which resulted from the sale of inventory which had been written-up to reflect estimated selling price less the sum of estimated costs of completion and sale at the time of the Acquisition.

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3. ACQUISITIONS (CONTINUED)

The following are unaudited pro forma consolidated results of operations for the years ended December 31, 1997 and 1996, as if the Acquisition

had occurred as of the beginning of each period. The unaudited pro forma consolidated results of operations have been adjusted to eliminate the effect of the \$5.2 million non-recurring charge to operations for the value assigned to the in-process NX-8 technology and the \$725,000 non-recurring purchase accounting adjustment which resulted from the sale of the purchased inventory. The pro forma information also includes adjustments for additional depreciation and amortization, the reduction of compensation expense for a non-active majority shareholder, the reduction of interest income and additional interest expense due to the reduction of cash used for the Acquisition and the impact on the tax provision due to these adjustments. The unaudited pro forma consolidated results of operations do not purport to represent what the Company's results of operations would actually have been if the Acquisition had, in fact, occurred on that date (in thousands, except per share data).

	Pro forma year ended December 31,	
	1997	1996
	(Unaudited)	
Net sales, in thousands	\$ 106,939	\$ 111,548
Net income, in thousands	13,717	16,504
Basic earnings per share	1.63	1.85
Diluted earnings per share	1.58	1.78

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4. OTHER FINANCIAL STATEMENT DATA

The following financial statement data is as of December 31 (in thousands).

	1998	1997
Accounts receivable:		
Accounts receivable	\$ 20,182	\$ 15,555
Allowance for doubtful accounts	(1,145)	(1,045)
Total	\$ 19,037	\$ 14,510
Inventories:		
Raw materials	\$ 12,600	\$ 9,956
Allowance for obsolescence	(1,360)	(1,660)
Work-in-process	11,240	8,296
Finished goods	5,615	4,877
Total	\$ 25,201	\$ 21,962
Property and equipment:		
Machinery and equipment	\$ 12,433	\$ 10,080
Furniture and fixtures	4,545	3,881
Land, building and improvements	1,786	1,751
Accumulated depreciation and amortization	18,764	15,712
Total	\$ 10,647	\$ 9,825
Other intangible assets:		
Trademarks and trade names	\$ 13,829	\$ 13,829
Technology and patents	5,336	3,569
Customer lists	3,007	3,007
Other	626	616
Accumulated amortization	22,798	21,021
Total	\$ 19,897	\$ 18,834
Other accrued expenses:		
Warranty	\$ 650	\$ 650
Professional fees	432	493
Other	873	864
Total	\$ 1,955	\$ 2,007
Income taxes:		

Deferred	\$ 7,027	\$ 6,485
Other	649	778
	-----	-----
Total	\$ 7,676	\$ 7,263
	=====	=====

SIGNIFICANT CUSTOMER AND EXPORT SALES

During the years ended December 31, 1997 and 1996, one customer accounted for 25% and 41%, respectively, of consolidated net sales. This customer accounted for 11% of consolidated accounts receivable at December 31, 1997. No one customer exceeded more than 6% of consolidated sales or accounts receivable for the year ended December 31, 1998.

Export sales, primarily to Canada, Europe and Australia, accounted for 18.3%, 13.9% and 8.7% of consolidated net sales for the years ended December 31, 1998, 1997 and 1996, respectively.

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5. INCOME TAXES

Income tax expense consisted of the following for the year ended December 31 (in thousands):

<TABLE>			
<CAPTION>			
	1998	1997	1996
	-----	-----	-----
<S>	<C>	<C>	<C>
Current:			
Federal	\$ 6,697	\$ 6,443	\$ 7,069
State	698	509	598
Deferred	619	250	988
	-----	-----	-----
	\$ 8,004	\$ 7,202	\$ 8,655
	=====	=====	=====

</TABLE>

The Company paid taxes of \$7,251,000, \$5,163,000 and \$6,751,000 for the years ended December 31, 1998, 1997 and 1996, respectively.

The differences between the income tax expense and income taxes computed using the statutory federal income tax rate were as follows for the year ended December 31 (in thousands):

<TABLE>			
<CAPTION>			
	1998	1997	1996
	-----	-----	-----
<S>	<C>	<C>	<C>
Amount using the statutory federal tax rate	\$ 7,782	\$ 5,182	\$ 8,311
Purchased research and development costs		1,820	
Amortization of excess of cost over net assets acquired	281	265	231
State income taxes, net of federal benefit	448	331	389
Research and development tax credits	(380)	(345)	(208)
Foreign sales corporation benefit	(279)	(208)	(147)
Other, net	152	157	79
	-----	-----	-----
	\$ 8,004	\$ 7,202	\$ 8,655
	=====	=====	=====

</TABLE>

A summary of the components of deferred tax assets (liabilities) is as follows for the year ended December 31 (in thousands):

<TABLE>		
<CAPTION>		
	1998	1997
	-----	-----
<S>	<C>	<C>
Current deferred tax asset:		
Accrued expenses and valuation reserves not yet deducted for tax purposes	\$ 1,223	\$ 1,300
	=====	=====
Long-term deferred tax liability:		
Depreciation	\$ (632)	\$ (553)
Patent defense costs	(1,744)	(1,133)
Other intangible assets	(4,651)	(4,799)
	-----	-----
	(\$7,027)	(\$6,485)

6. CREDIT FACILITY

On April 30, 1997, the Company entered into an unsecured \$15.0 million bank revolving credit facility. The facility provides for interest calculated, at the Company's option, at LIBOR plus 1.0% or the commercial bank's base rate less 1.25%. In addition, the facility requires a commitment fee of 0.1% per annum on the unused portion of the facility. The agreement allows for payment of annual dividends equal to 25% of the Company's net income for the immediately preceding fiscal year and requires the maintenance of specified ratios and minimum net worth. No borrowings were outstanding at December 31, 1997 or any time during 1998.

On December 12, 1994, the Company entered into a bank credit agreement for an unsecured \$15.0 million bank revolving credit facility which provided for interest calculated, at the Company's option, at LIBOR plus 1.0% or a commercial bank's base rate. In addition, the facility required a commitment fee of .25% per annum on the unused portion of the revolving credit commitment. During 1996, in consideration of its cash position, the Company voluntarily decided to terminate this facility. No amounts were outstanding under this agreement at any time during 1996.

The Company paid \$20,000, \$24,000 and \$27,000 of interest for the years ended December 31, 1998, 1997 and 1996, respectively.

7. COMMITMENTS

The Company leases certain property and equipment under various non-cancelable operating leases which expire at various periods through 2001. Total rent expense of the Company was \$709,000, \$676,000 and \$652,000 for the years ended December 31, 1998, 1997 and 1996, respectively. At December 31, 1998, future minimum rentals required under non-cancelable operating leases are as follows (in thousands):

1999.....	\$ 701
2000.....	616
2001.....	45

	\$ 1,362
	=====

The Company has entered into a contract for the construction of a 31,063 square foot building on a parcel of land adjacent to its Gladewater, Texas facility. The estimated construction cost is \$1,200,000 and the building is scheduled to be completed in June of 1999.

8. LITIGATION

On August 17, 1995, the Company commenced an action for patent infringement against Pittway Corporation and its subsidiary, Ademco Distribution Inc., in the United States District Court for the District of Minnesota. On March 9, 1998, the jury found that the Ademco VISTA Plus/5800 family of wireless security systems infringes the Company's Learn Mode patent and awarded the Company damages of approximately \$36 million for lost profits and royalties. On April 9, 1998, the Court entered an injunction prohibiting Pittway Corporation from manufacturing and marketing the Ademco 5800 series wireless products that infringe the Company's Learn Mode patent and awarded the Company prejudgment interest of approximately \$3 million, bringing the total judgment to approximately \$39 million. Pittway Corporation appealed the verdict. On March 4, 1999, the Federal Circuit Court of Appeals heard oral arguments on the case. The Company anticipates that the appeal will be resolved during the first half of 1999.

8. LITIGATION (CONTINUED)

Pittway has announced that in 1997 it had "introduced an improved method of enrolling transmitters in its VISTA series of control panels." Pittway calls this new method "QED." While the Company has maintained that Pittway's QED products also infringe the Company's LEARN MODE patent, the judge would not allow the Company to add Pittway's QED products to the action commenced in August of 1995. Accordingly, the Company commenced a second patent infringement lawsuit against Pittway and Ademco Distribution, Inc. on August 3, 1998, for infringement of the Company's Learn Mode patent. The suit was also filed in the United States District Court for the District of Minnesota. Discovery in the second suit has been stayed by agreement of the parties pending resolution of the appeal of the first suit.

Costs associated with these actions and related appeal are being capitalized as a patent asset associated with the related technology. As of December 31, 1998, the Company has capitalized \$4.8 million of costs related to these lawsuits, which are included in other intangible assets on the consolidated balance sheet.

In addition, the Company experiences routine litigation in the normal course of its business. The Company does not believe that any of this routine litigation will have a material adverse effect on the financial condition or results of operations of the Company.

9. PROFIT SHARING PLANS

The Company contributes to certain defined contribution plans (the "Plans") which qualify under Section 401(k) of the Internal Revenue Code. Employees who meet minimum age and service requirements are eligible to participate in the Plans. The Company's contributions to the Plans were \$217,000, \$171,000 and \$148,000 for the years ended December 31, 1998, 1997 and 1996, respectively.

10. STOCKHOLDERS' EQUITY

TREASURY SHARES

On June 18, 1998, the Board of Directors of the Company canceled the stock repurchase program authorized on November 22, 1996 and authorized the repurchase, from time to time, of up to 1,000,000 shares of the Company's common stock in the open market or in private transactions. Total repurchases under this authorization of 245,200 shares occurred during the third quarter of 1998.

On November 22, 1996, the Board of Directors authorized, subject to market conditions and other factors, the purchase of up to 900,000 shares of the Company's Common Stock. The Company purchased 90,000 and 621,500 shares under this authorization in 1997 and 1996, respectively.

STOCKHOLDER RIGHTS PLAN

In November 1996, the Company's Board of Directors declared a dividend distribution of one common share purchase right (a "Right") for each outstanding share of Common Stock payable to stockholders of record at the close of business on December 9, 1996. Each Right entitles the holder to purchase from the Company one-half of a share of Common Stock, or a combination of securities and assets of equivalent value, subject to adjustment, at a purchase price of \$25.00. The Rights will only become exercisable on the tenth business day following (i) the public announcement that a person or group has acquired 20% or more of the Company's Common Stock; or (ii) the public announcement by a person or group of a tender or exchange offer that would result in ownership of 20% or more of the Company's Common Stock, unless such offer has been determined by the Company's Board, prior to the purchase of shares under such tender or exchange offer, to be fair to the Company's stockholders and in the best interests of the Company and its stockholders; or (iii) a determination by the Company's Board that a person is an Adverse Person and that such Person, alone or together with its affiliates, has become the beneficial owner of at least 15% of the Company's Common Stock. Prior to becoming exercisable, the Rights are redeemable at the discretion of the Company's Board and expire at the close of business on November 26, 2006.

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10. STOCKHOLDERS' EQUITY (CONTINUED)

STOCK INCENTIVE PLAN

The Company's Long-Term Stock Incentive Plan (1992) (the "Stock Plan") provides for grants of up to 2,500,000 stock options, shares of restricted stock, restricted stock units and stock appreciation rights to officers, directors and other key employees. Options granted that are canceled or expire are available for grant in future periods. Stock option activity was as follows:

<TABLE>

<CAPTION>

OPTIONS	NUMBER OF SHARES	WEIGHTED-AVERAGE EXERCISE PRICE	WEIGHTED-AVERAGE FAIR VALUE
<S>	<C>	<C>	<C>
Outstanding at December 31, 1995	1,016,509	13.53	
Granted	311,000	27.91	10.26
Exercised	(120,900)	5.31	
Canceled	(15,450)	22.39	
Outstanding at December 31, 1996	1,191,159	18.00	
Granted	366,000	14.26	5.94
Granted under exchange and repricing agreements	653,300	16.47	6.69
Canceled	(677,650)	25.22	

Exercised	(153,782)	8.11	
Outstanding at December 31, 1997	1,379,027	13.84	
Granted	386,000	30.48	12.61
Exercised	(114,630)	9.29	
Canceled	(30,050)	16.55	
Outstanding at December 31, 1998	1,620,347	18.08	

</TABLE>

The following table summarizes information about stock options outstanding at December 31, 1998:

<TABLE>
<CAPTION>

RANGE OF EXERCISE PRICES	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
	NUMBER OUTSTANDING	WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED-AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE	WEIGHTED-AVERAGE EXERCISE PRICE
<S>	<C>	<C>	<C>	<C>	<C>
\$5.00 to \$7.50	252,777	4.2 years	\$ 5.32	247,337	\$ 5.33
\$14.125 to \$16.50....	894,420	8.0 years	15.72	660,084	15.83
\$22.56 to \$30.75.....	473,150	8.4 years	29.35	290,660	28.68
\$5.00 to \$30.75.....	1,620,347	7.5 years	18.08	1,198,081	16.78

</TABLE>

Options vest over periods up to seven years from the date of grant and expire at various periods up to November 2008. All options were granted with an exercise price equal to or exceeding the fair value of the Company's Common Stock at the date of grant. Upon termination of employment, options not exercisable expire.

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10. STOCKHOLDERS' EQUITY (CONTINUED)

On May 22, 1997, the Company canceled all stock options awarded to date to the Company's Board of Directors having an exercise price of \$25.88 and replaced such options with options issued under the Company's Stock Plan having an exercise price of \$16.00, the market price of the Common Stock on that date. All other terms and conditions contained in such options remained unchanged.

On May 5, 1997, the Company repriced certain Series D and E Stock Options that had an exercise price of \$22.56 or higher to provide for a new exercise price of \$16.50, the market price of the Common Stock on that date. All other terms and conditions contained in such options remained unchanged.

On January 28, 1997, the Company offered an exchange agreement to all current employees previously awarded certain Series C Stock Options during the period beginning April 18, 1995 and ending December 31, 1996. The agreement offered such employees the ability to exchange their unexercised Series C Stock Options issued to them during the indicated period for new options in the identical number but with a five-year vesting period commencing January 28, 1997 and a new exercise price of \$16.50, the market price of the Common Stock on that date.

ACCOUNTING FOR STOCK-BASED COMPENSATION

The Company utilizes the intrinsic value method to account for employee stock option grants. Had compensation expense for the Stock Plan been determined consistent with the fair-value-based method of SFAS No. 123, the Company's net income and net income per share would have been reduced to the pro forma amounts indicated below.

The fair value of each option is estimated on the date of grant using the Black-Scholes option-pricing model with weighted average assumptions of no dividend yield; expected volatility of 33.1%, 30.7% and 25.1%; expected option holding periods of 5.6, 5.3, and 5.3 years; and risk-free interest rates of 5.66%, 6.81%, and 6.38% for 1998, 1997 and 1996, respectively.

		1998	1997	1996
Net income (in thousands)	As Reported	\$14,230	\$ 7,604	\$15,092
	Pro forma	12,966	6,929	13,936
Basic earnings per share	As Reported	\$ 1.68	\$.91	\$ 1.69
	Pro forma	1.53	.83	1.56

Diluted earnings per share	As Reported	\$ 1.61	\$.87	\$ 1.63
	Pro forma	1.47	.80	1.52

The pro forma information above only includes stock options granted subsequent to December 31, 1994. Pro forma compensation expense under the fair-value-based method may increase over the next few years as additional stock option grants are considered.

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REPORT OF INDEPENDENT ACCOUNTANTS
ON FINANCIAL STATEMENT SCHEDULE

To the Board of Directors and Stockholders of
ITI Technologies, Inc.:

Our report on the consolidated financial statements of ITI Technologies, Inc. is included on page F-2 of this Annual Report on Form 10-K. In connection with our audits of such financial statements, we have also audited the related financial statement schedule listed on page S-2 of this Annual Report on Form 10-K.

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 required to be included therein.

/s/ PricewaterhouseCoopers LLP

PRICEWATERHOUSECOOPERS LLP

Minneapolis, Minnesota
March 23, 1999

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ITI TECHNOLOGIES, INC.
SCHEDULE II -- VALUATION AND QUALIFYING ACCOUNTS
FOR THE YEARS ENDED DECEMBER 31, 1996, 1997 AND 1998

<TABLE>
<CAPTION>

DESCRIPTION		BALANCE AT BEGINNING OF PERIOD	CHARGED TO EXPENSE	DEDUCTIONS	BALANCE AT END OF PERIOD
-----		-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>	<C>
Allowance for Doubtful Accounts	1996	\$ 800,000	\$ 384,593	\$ 284,593	\$ 900,000
	1997	900,000	657,000	512,000	1,045,000
	1998	1,045,000	399,201	299,201	1,145,000
Allowance for Inventory Obsolescence	1996	\$1,300,000	\$ 202,624	\$ 102,624	\$1,400,000
	1997	1,400,000	388,000	128,000	1,660,000
	1998	1,660,000	39,500	339,500	1,360,000

</TABLE>

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SIGNATURES

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

ITI TECHNOLOGIES, INC.

By: /s/ Thomas L. Auth
Thomas L. Auth
ITS: CHAIRMAN, PRESIDENT AND CHIEF EXECUTIVE OFFICER

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

<TABLE>
<CAPTION>

NAME	TITLE	DATE
----	----	----
<S>	<C>	<C>
	Chairman, President, Chief Executive	

/s/ Thomas L. Auth -----	Officer and Director	March 26, 1999
/s/ W. Wallace McDowell, Jr. -----	Director	March 26, 1999
/s/ William C. Ughetta, Jr. -----	Director	March 26, 1999
/s/ Perry J. Lewis -----	Director	March 26, 1999
/s/ Sangwoo Ahn -----	Director	March 26, 1999
/s/ Walter R. Barry, Jr. -----	Director	March 26, 1999
/s/ Jack A. Reichert -----	Vice President, Finance (Chief Accounting Officer)	March 26, 1999

</TABLE>

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INDEX TO EXHIBITS

EXHIBIT NO.	DESCRIPTION OF EXHIBIT
10.1	Long-Term Stock Incentive Plan (1992) (Amended and Restated as of May 13, 1998)
10.2	Supply Agreement between Edison Select, an Edison International Company, and Interactive Technologies, Inc. dated December 15, 1998.
10.3	Lease Agreement between Aetna Institutional Investors I Limited Partnership and Interactive Technologies, Inc. dated January 1, 1999.
10.4	Lease Agreement between G.D. Package Machinery, Inc. and Interactive Technologies, Inc. dated June 1, 1998.
10.5	Construction Agreement between Noah's Construction, Inc. and CADDX Controls, Inc. dated October 8, 1998.
23.1	Consent of PricewaterhouseCoopers LLP
27.1	Financial Data Schedule (for electronic filing purposes only)

ITI TECHNOLOGIES, INC.
LONG-TERM STOCK INCENTIVE PLAN (1992)
(AMENDED AND RESTATED AS OF MAY 13, 1998)

Section 1. PURPOSE

The purposes of the ITI Technologies, Inc. Long-Term Stock Incentive Plan (1992) (the "PLAN") are to promote the interests of ITI Technologies, Inc. and its shareholders by attracting and retaining nonemployee directors, executive personnel and other key employees of outstanding ability; and enabling such directors and employees to participate in the long-term growth and financial success of ITI Technologies, Inc.

Section 2. DEFINITIONS

"AWARD" shall mean a grant or award under SECTION 6, 7 or 8 of the Plan, as evidenced in a written document delivered to a Participant as provided in SECTION 9(b).

"BOARD OF DIRECTORS" shall mean the Board of Directors of the Corporation.

"CODE" shall mean the Internal Revenue Code of 1986, as amended from time to time.

"COMMITTEE" shall mean the Compensation Committee of the Board of Directors and any sub-committee of the Compensation Committee designated by the Board of Directors and/or the Compensation Committee.

"COMMON STOCK" or "STOCK" shall mean the Common Stock, \$.01 par value, of the Corporation.

"CORPORATION" shall mean ITI Technologies, Inc.

"DESIGNATED BENEFICIARY" shall mean the beneficiary designated by the Participant, in a manner determined by the Committee, to receive amounts due the Participant in the event of the Participant's death. In the absence of an effective designation by the Participant, Designated Beneficiary shall mean the Participant's estate.

"EMPLOYEE" shall mean any key employee of the Employer.

"EMPLOYER" shall mean the Corporation and any Subsidiary.

"FISCAL YEAR" shall mean the fiscal year of the Corporation.

"NONEMPLOYEE DIRECTOR" shall mean a director of the Corporation who is not also an employee of the Corporation.

"OPTION" shall mean a stock option granted under SECTION 6 which is not intended to be an incentive stock option within the meaning of Section 422 of the Code.

"PARTICIPANT" shall mean an Employee and/or a Nonemployee Director who is selected by the Committee to receive an Award under the Plan.

"RESTRICTION PERIOD" shall mean the period of years selected by the Committee during which a grant of Restricted Stock or Restricted Stock Units may be forfeited to the Corporation.

"RESTRICTED STOCK" shall mean shares of Common Stock contingently granted to a Participant under SECTION 7 of the Plan.

"RESTRICTED STOCK UNIT" shall mean a unit contingently awarded under SECTION 7 of the Plan.

"STOCK APPRECIATION RIGHT" shall mean a right granted under SECTION 8.

"SUBSIDIARY" shall mean any business entity in which the Corporation possesses directly or indirectly fifty percent (50%) or more of the total combined voting power.

Section 3. ADMINISTRATION

The Plan shall be administered by the Committee. The Committee shall have sole and complete authority to adopt, alter and repeal such administrative rules, guidelines and practices governing the operation of the Plan as it shall from time to time deem advisable, and to interpret the terms and provisions of the Plan. The Committee may delegate to one or more executive officers of the Corporation the power to make Awards to Participants who are not executive officers or directors of the Corporation provided the Committee shall fix the maximum amount of such Awards for the group and a maximum for any one Participant. The Committee's decisions shall be binding upon all persons, including the Corporation, stockholders, an Employer, Employees, Nonemployee Directors, Participants and Designated Beneficiaries.

Section 4. ELIGIBILITY

All Employees and Nonemployee Directors who, in the opinion of the Committee, have the capacity for contributing in a substantial measure to the successful performance of the Corporation are eligible to be Participants in the

Plan.

Section 5. MAXIMUM AMOUNT AVAILABLE FOR AWARDS

(a) The maximum number of shares of Stock in respect of which Awards may be made under the Plan shall be a total of 2,500,000 shares of Common Stock. Shares of Common Stock may be made available from the authorized but unissued shares of the Corporation or from shares reacquired by the Corporation. In the event that (i) an Option expires or is terminated

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unexercised as to any shares of Common Stock covered thereby; or (ii) any Award in respect of shares is canceled or forfeited for any reason under the Plan without the delivery of shares of Common Stock, such shares shall thereafter be again available for award pursuant to the Plan.

(b) In the event that the Committee shall determine that any stock dividend, extraordinary cash dividend, recapitalization, reorganization, merger, consolidation, split-up, spin-off, combination, exchange of shares, warrants or rights offering to purchase Common Stock at a price substantially below fair market value, or other similar corporate event affects the Common Stock such that an adjustment is required in order to preserve the benefits or potential benefits intended to be made available under this Plan, then the Committee shall, in its sole discretion, and in such manner as the Committee may deem equitable, adjust any or all of (i) the number and kind of shares which thereafter may be awarded or optioned and sold under the Plan; (ii) the number and kind of shares subject to outstanding Options and other Awards; and (iii) the grant, exercise or conversion price with respect to any of the foregoing and/or, if deemed appropriate, make provision for a cash payment to a Participant or a person who has an outstanding Option or other Award; provided, however, that the number of shares subject to any Option or other Award shall always be a whole number.

Section 6. STOCK OPTIONS

(a) GRANT. Subject to the provisions of the Plan, the Committee shall have sole and complete authority to determine the Employees and/or Nonemployee Directors to whom Options shall be granted, the number of shares to be covered by each Option, the option price therefor and the conditions and limitations applicable to the exercise of the Option.

(b) OPTION PRICE. The Committee shall establish the option price at the time each Option is granted.

(c) EXERCISE.

(1) Each Option shall be exercisable at such times and subject to such terms and conditions as the Committee may, in its sole discretion, specify in the applicable Award or thereafter, provided, however, that in no event may any Option granted hereunder be exercisable after the expiration of ten years from the date of such grant. The Committee may impose such conditions with respect to the exercise of Options, including, without limitation, any relating to the application of federal or state securities laws, as it may deem necessary or advisable.

(2) No shares shall be delivered pursuant to any exercise of an Option until payment in full of the option price therefor is received by the Corporation. Such payment may be made in cash, or its equivalent, or, if and to the extent permitted by the Committee, by exchanging shares of Common Stock owned by the optionee (which are not the subject of any pledge or other security interest), or by a combination of the foregoing, provided that the combined value of all cash and cash equivalents and the fair market value of any such Common Stock so tendered to the Corporation, valued as of the date of such tender, is at least equal to such option price.

Section 7. RESTRICTED STOCK AND RESTRICTED STOCK UNITS

(a) Subject to the provisions of the Plan, the Committee shall have sole and complete authority to determine the Employees and/or Nonemployee Directors to whom shares of Restricted Stock and Restricted Stock Units shall be granted, the number of shares of Restricted Stock and the number of Restricted Stock Units to be granted to each Participant, the duration of the Restriction Period during which, and the conditions under which, the Restricted Stock and Restricted Stock Units may be forfeited to the Corporation, and the other terms and conditions of such Awards. The Restriction Period shall consist of at least one (1) year (which may be shortened or waived by the Committee at any time in its discretion) with respect to one (1) or more Participants or Awards outstanding.

(b) Restricted Stock Units and shares of Restricted Stock may not be sold, assigned, transferred, pledged or otherwise encumbered, except as herein provided, during the Restriction Period. Certificates issued in respect of shares of Restricted Stock shall be registered in the name of the Participant and deposited by such Participant, together with a stock power endorsed in blank, with the Corporation. At the expiration of the Restriction Period, the Corporation shall deliver such certificates to the Participant or the Participant's legal representative. Payment for Restricted Stock Units shall be made by the Corporation in cash or shares of Common Stock, as determined at the sole discretion of the Committee.

Section 8. STOCK APPRECIATION RIGHTS

The Committee may, with sole and complete authority, grant Stock Appreciation Rights in tandem with an Option, in addition to an Option, or freestanding and unrelated to an Option. Stock Appreciation Rights granted in tandem with or in addition to an Option may be granted either at the same time as the Option or at a later time. Stock Appreciation Rights shall not be exercisable earlier than six (6) months after grant, shall not be exercisable after the expiration of ten (10) years from the date of grant and shall have an exercise price of not less than one hundred percent (100%) of the fair market value of the Common Stock on the close of business on the date of grant ("FAIR MARKET VALUE"). A Stock Appreciation Right shall entitle the Participant to receive from the Corporation an amount of cash equal to the excess, if any, of the Fair Market Value of a share of Common Stock on the exercise of the Stock Appreciation Right (or such other date specified by the Committee at the time of grant) over the exercise price thereof.

Section 9. GENERAL PROVISIONS

(a) WITHHOLDING. The Employer shall have the right to deduct from all amounts paid to a Participant in cash (whether under this Plan or otherwise) any taxes required by law to be withheld in respect of Awards under this Plan. In the case of payments of Awards in the form of Common Stock, at the Committee's discretion the Participant may be required to pay to the Employer the amount of any taxes required to be withheld with respect to the amount of any taxes required to be withheld with respect to such Common Stock, or, in lieu thereof, the Employer shall have the right to retain (or the Participant may be offered the opportunity to elect

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to tender) the number of shares of Common Stock whose fair market value equals the amount required to be withheld.

(b) AWARDS. Each Award hereunder shall be evidenced in writing, delivered to the Participant and shall specify the terms and conditions thereof and any rules applicable thereto, including, but not limited to, the effect on such Award of the death, retirement or other termination of employment of the Participant and the effect thereon, if any, of a change in control of the Corporation.

(c) NONTRANSFERABILITY. No Award shall be assignable or transferable except by will or the laws of descent and distribution, and no right or interest of any Participant shall be subject to any lien, obligation or liability of the Participant.

(d) NO RIGHT TO EMPLOYMENT. No person shall have any claim or right to be granted an Award, and the grant of an Award shall not be construed as giving

a Participant the right to be retained in the employ of the Employer. Further, the Employer expressly reserves the right at any time to dismiss a Participant free from any liability, or any claim under the Plan, except as provided herein or in any agreement entered into with respect to any Award.

(e) NO RIGHTS AS STOCKHOLDER. Subject to the provisions of the applicable Award, no Participant or Designated Beneficiary shall have any rights as a stockholder with respect to any shares of Common Stock to be distributed under the Plan until he or she has become the holder thereof. Notwithstanding the foregoing, in connection with each grant of Restricted Stock hereunder, the applicable Award shall specify if and to what extent the Participant shall not be entitled to the rights of a stockholder in respect of such Restricted Stock.

(f) CONSTRUCTION OF THE PLAN. The validity, construction, interpretation, administration and effect of the Plan and of its rules and regulations, and rights relating to the Plan, shall be determined solely in accordance with the laws of New York, regardless of the law that might be applied under applicable principles of conflicts of laws.

(g) EFFECTIVE DATE. Subject to the approval of the stockholders of the Corporation, the Plan shall be effective on May 11, 1992. No Options or Awards may be granted under the Plan after May 10, 2002.

(h) AMENDMENT OF AWARD; AMENDMENT OF THE PLAN.

(1) The Committee may amend, modify or terminate any outstanding Award with the Participant's consent at any time prior to payment or exercise in any manner not inconsistent with the terms of the Plan, including without limitation (i) to change the date or dates as of which (A) an Option becomes exercisable; (B) Restricted Stock becomes nonforfeitable; or (ii) to cancel and reissue an Award under such different terms and conditions as it determines appropriate.

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(2) The Board of Directors may amend, suspend or terminate the Plan or any portion thereof at any time, provided that no amendment shall be made without stockholder approval if such approval is necessary to comply with any tax or regulatory requirement. Notwithstanding anything to the contrary contained herein, the Committee may amend the Plan in such manner as may be necessary so as to have the Plan conform with local rules and regulations.

(i) NOTICE OF EXERCISE. Prior to the receipt of any shares of Common Stock in connection with any Award hereunder, the Participant will execute and deliver to the Corporation a Notice of Exercise of Stock Option in the form, and containing such terms and conditions, as shall be determined by the Committee.

SUPPLY AGREEMENT
EDISON SELECT

This Purchase Agreement is between EDISON SELECT, an Edison International Company d/b/a EDISON SECURITY SERVICES ("EDISON"), and INTERACTIVE TECHNOLOGIES, INC., a Minnesota corporation ("ITI").

EDISON AND ITI AGREE AS FOLLOWS:

1. PURCHASE AND SALE. This Agreement governs the purchases from ITI by Edison, and the sale by ITI to Edison, of various electronic security products manufactured and/or distributed by ITI and/or its affiliate, CADDX Controls, Inc. ("CADDX").

2. TERM. The term of this Agreement shall start on the date set forth on the signature page hereof and shall continue in full force and effect for a period of two (2) years following January 1, 1999, unless otherwise terminated in accordance with PARAGRAPH 24 below.

3. SOURCING.

A) Except as otherwise provided in SUBSECTIONS 3.B. and 3.C. below, Edison shall purchase from ITI all of its requirements for electronic security equipment for its residential security branches located in the States of California and Washington. This sourcing requirement is subject to a reasonable transition period. The parties will use their good faith best efforts to complete the transition no later than January 1, 1999.

B) Notwithstanding anything contained in SUBSECTION 3.A. to the contrary, the sourcing requirement set forth in SUBSECTION 3.A. does not apply to Edison Commercial (Eric McRae's operation) or Valley Alarm (the Fresno branch and its satellites).

C) Notwithstanding anything contained in SUBSECTION 3.A. to the contrary, ITI acknowledges and agrees that Edison may purchase electronic security equipment from other vendors under the following circumstances:

i) For use in installations where more than 76 zones are required;

ii) To service or upgrade equipment already installed in the field by Edison or a third party;

iii) Equipment to be installed by Edison under contractual commitments existing as of the date of this Agreement and/or building projects existing as of the date of this Agreement;

iv) To meet a specific customer installation or product requirement that cannot be met by product offered by ITI; or

v) If ITI is unable to meet Edison's demand for product.

4. PRICE. All prices are in U.S. dollars and F.O.B. "Destination Point" (as that term is defined in PARAGRAPH 19 below). So long as Edison has not breached any material obligation under this Agreement, Edison shall be entitled to purchase and be invoiced for product from ITI at prices set forth in EXHIBIT A.

5. PRIVATE LABELING. All wall-mount keypads sold by ITI to Edison under this Agreement shall be private labeled with such trademarks or other designations that are owned by Edison, all in accordance with directions received by ITI from Edison. Edison shall provide ITI with a six-month rolling forecast for ITI's use in forecasting private label needs, which forecast shall be nonbinding except as otherwise set forth in PARAGRAPH 6 below.

6. DEMAND FORECAST. Edison shall provide ITI each month with a six-month rolling forecast of anticipated product needs (the "MONTHLY DEMAND FORECAST(S)"), which Monthly Demand Forecast shall be nonbinding except as expressly stated below in this PARAGRAPH 6. Edison agrees that it shall be bound to purchase any unique or proprietary raw materials, components or unfinished goods required to support the most current Monthly Demand Forecast. Notwithstanding anything contained herein to the contrary, Edison's obligations under the second sentence of this PARAGRAPH 6 shall survive expiration or termination of this Agreement (other than termination based upon a material breach of this contract by ITI).

7. ELECTRONIC ORDER ENTRY. ITI will establish a system of electronic order entry for Edison branches to order equipment from ITI. ITI will present a plan outlining order procedures to Edison by December 15, 1998, and ITI will use its best efforts to have the electronic ordering procedures shall be in effect no later than January 1, 1999.

8. DISTRIBUTION. Product will be delivered to Edison from ITI's warehouse located in Anaheim, California (or such alternate warehouse facility as ITI may designate from time in its sole and absolute discretion). Product will be shipped to each Edison branch on a weekly basis. Order cutoff times and delivery days will be established on a branch-by-branch basis. ITI will present Edison with a detailed distribution plan as soon as possible.

9. CONSIGNMENT INVENTORY.

A) The parties shall settle up by December 31, 1998, with respect to

all inventory consigned to Edison under that certain Consignment and Security Agreement between the parties dated July 18, 1997, by returning to ITI any excess control panel inventory and paying ITI for the balance of all inventory consigned under that agreement.

B) Pursuant to the terms and conditions of a Consignment and Security Agreement of even date with this Agreement, ITI agrees to consign to Edison product equal to fifteen (15) days of demand (as forecasted by Edison) plus 20 percent (20%) as safety stock. Edison shall provide ITI with a seven-day demand forecast as soon as possible. ITI shall

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provide Edison with a detailed procedure for controlling consignment inventory and the adjustment of consignment inventory as soon as possible.

10. WESTEC PANEL REPAIR FACILITY.

A) During the term of this Agreement and subject to a reasonable transition period (as discussed in further detail in SUBPARAGRAPH 10.D. below), ITI shall be responsible for the repair of Westec security equipment. Provided that Edison has timely supplied ITI with the assistance and information called out in SUBPARAGRAPH 10.B. below, ITI shall present Edison with a written plan for transition of the Westec repair facility to ITI no later than December 15, 1998. ITI's plan shall include proposed repair pricing and a proposed transition date (consistent with the intent of SUBPARAGRAPH 10.D. below). ITI's obligations to repair Westec products shall cease upon the expiration or termination of this Agreement.

B) Edison shall fully cooperate with ITI in the transition of the Westec repair facility and provide ITI with such assistance and data as necessary to facilitate such transition, including, but not limited to, full and complete cooperation in connection with the sourcing of repair parts, staffing and training. Without limiting the generality of the foregoing, Edison shall provide ITI (as soon as possible) with the following information: (i) a bill of material for each Westec product; (ii) an estimated field population for each Westec product; (iii) an estimated number of units repaired, by product, over the last six months; (iv) the existing repair pricing schedule; (v) a schedule of all test equipment and tools used in connection with the repair operation, including estimated value of such equipment and tools; and (vi) an inventory of all supplies, raw materials, components and finished goods, together with an estimated value therefor, used in

connection with the Westec repair program.

C) Edison hereby represents to ITI that (i) the Westec security controls are no longer in production and production of all Westec security peripherals will cease no later than February 28, 1999; and (ii) that repair parts for Westec products will be available to ITI and that ITI shall not be responsible to manufacture any component parts (including plastic housings) or subassemblies for Westec products, unless otherwise subsequently agreed to in writing between the parties. In the event that fulfillment of ITI's obligations with respect to the Westec panel repair facility is anticipated to result in any extraordinary costs (E.G., the purchase of new tooling for the making of plastic), the parties will negotiate a mutually acceptable financial arrangement. Notwithstanding anything contained in the previous sentence to the contrary, ITI acknowledges and agrees that the subject repair operations may involve the assembly, from available component parts, of various keypads in small quantities.

D) ITI will use its good faith best efforts to complete the transition by January 2, 1999. Edison acknowledges and agrees, however, that a successful and timely transition is wholly dependent upon the full, complete and timely cooperation of Edison, including,

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but not limited to, the fulfillment of Edison's obligations under SUBPARAGRAPH 10.B. above.

E) The written plan to be delivered by ITI in accordance with SUBPARAGRAPH 10.A. above shall include a proposal regarding the transference of related testing equipment, tools, supplies, raw materials, components and finished goods from Edison to ITI.

F) ITI shall bill Edison directly for all Westec repair activity. Edison shall procure for ITI a list of all Westec franchisees and other entities for whom Edison has an obligation to repair Westec security equipment.

G) ITI acknowledges that, in the course of performing its repair obligations under this Agreement, ITI may obtain confidential information of the manufacturer of the subject equipment, including the Westec product code and receiving formats. Accordingly, ITI agrees to treat such information as strictly confidential, and shall use the same care to prevent the disclosure of such information as ITI uses with respects to its own confidential and proprietary information (which

shall be no less than the care a reasonable person would use under similar circumstances).

11. PRODUCT DEVELOPMENT.

A) ITI will use its best efforts to develop, at its own cost and expense, a hardware input module retropack for the Westec panel ("WESTEC RETROPACK"). Edison acknowledges and agrees that ITI shall retain all intellectual property and distribution rights to the Westec Retropack.

B) The parties acknowledge and expect that the arrangement documented herein will result in a mutually beneficial strategic alliance between the parties. To that end, the parties intend to cooperate in the development of the following features for the various security controls covered by this Agreement: (i) proprietary user interfaces (keypads) (I.E., proprietary look, style, shape and appearance of the plastic and the buttons); (ii) additional programmable macro buttons; (iii) a cancel button; and (iv) a bi-directional, full data port (E.G., RS232). The parties acknowledge and agree that the timing and extent of such product development activities shall conform with sound business practices, including, but not limited to, actual and anticipated quantities of product to be sold under this Agreement, the anticipated duration of the relationship between the parties, and cost and price constraints.

C) In light of the strategic alliance between the parties discussed in SUBPARAGRAPH 11.B. above, ITI will also work with Edison to customize owners' manuals and marketing communication materials or media that Edison uses in the sales, service or customer support of the ITI products covered by this Agreement. Such customization shall include, but is not limited to, private labeling and rewriting of text to make such documents proprietary or more user-friendly for Edison and its customers.

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Notwithstanding anything contained in this Agreement to the contrary, ITI shall retain final editorial control over all technical disclosures contained in such documents and such document development activities shall conform with sound business practices, including, but not limited to, actual and anticipated quantities of product to be sold under this Agreement, the anticipated duration of the relationship between the parties, and cost and price constraints.

12. TRAINING AND SUPPORT.

A) ITI will provide Edison, at no cost to Edison, technical and sales training at Edison's facilities as part of Edison's new product roll-out and at such other times and locations as are mutually agreed upon by ITI and Edison.

B) ITI will provide technical service through ITI's 800 help line from 7:00 a.m. to 8:00 p.m. CST, Monday through Friday.

C) ITI will provide Edison, at no cost to Edison, all relevant technical documents, including product reference manuals, installation instructions and prompt technical updates. All end-user documentation shall be private labeled for Edison.

D) ITI customer service representatives will be available from 7:30 a.m. to 6:00 p.m. CST, Monday through Friday.

E) ITI shall supply Edison, free of charge, with 100 NX-6 demo keypads and 200 demo keychain touchpads.

F) In consideration of roll-out expenses to be incurred by Edison and the purchase of demonstration equipment by Edison, over and above the demonstration equipment to be supplied by ITI pursuant to SUBPARAGRAPH 12.E. above, ITI shall rebate Edison an amount equal to one-half of one percent (0.5%) the aggregate invoice value (excluding any amounts invoiced for freight, taxes or other third-party charges) of all purchases made by Edison from ITI under this Agreement during calendar year 1999. Such rebates shall be paid by ITI within thirty (30) days of the end of calendar year 1999.

13. RESALE OF PRODUCT. Edison shall purchase product from ITI under this Agreement only for resale to ultimate end-users and/or authorized Edison Dealers operating under the Edison name ("AUTHORIZED DEALERS"). Edison shall not resell product to anyone other than a bona fide end-user and/or Authorized Dealers, and represents to ITI that Edison does not intend to purchase product from ITI with an intention to distribute such product to others for resale (other than Authorized Dealers). Edison acknowledges that Edison is not the exclusive dealer of ITI for any product or geographic area and that ITI reserves to itself the unrestricted right to sell product in any geographic area, including Edison's trade area, directly to any distributor, dealer, individual or entity.

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14. LICENSES AND PERMITS. Edison hereby represents to ITI that Edison has and shall maintain during the term of this Agreement all governmental licenses or

permits necessary in connection with Edison's business operations.

15. PURCHASE ORDERS. All orders for product shall be considered accepted only if accepted by ITI in writing or by shipment. All orders will be subject to the terms and conditions of this Agreement.

16. PAYMENT TERMS. All amounts payable under this Agreement shall be in U.S. dollars. Subject to written credit approval, which shall be in ITI's sole and absolute discretion, payment terms will be NET 30 days. Invoices will be considered past due if not paid in full thirty (30) days from the date of receipt by Edison. If, at any time, Edison's account balance with ITI extends beyond the date for payment specified above, ITI may, in its sole discretion, either (i) ship product to Edison on a C.O.D., C.I.A. or other advanced payment basis until the account is paid in full; or (ii) refuse to ship any product to Edison until the account is paid in full.

17. INVOICE SUBMITTAL AND PAYMENT. Every invoice submitted to Edison must show the Purchase Order number, the quantity, the description, the unit price and the extended price charged and the invoice total dollar amount for the product/service. The invoice should be mailed to Edison at the following address:

Edison Select / Edison Security Services
13191 Crossroads Parkway North
City of Industry, CA 91746
Attention: Accounts Payable

Invoices shall be paid within thirty (30) days after receipt by Edison, less any amounts for incorrect or unsubstantiated charges. If rates, prices, pricing format or pricing components are different from that stated in this Agreement, payment may be delayed due to necessary validation the invoice.

18. TAXES, DUTIES AND TARIFFS. All prices are exclusive of any present or future federal, state, local or other governmental taxes, duties or tariffs applicable to the sale, transportation or use of product under this Agreement, all of which taxes, duties or tariffs shall be paid by Edison.

19. SHIPMENT, TITLE AND RISK OF LOSS. All prices for product sold by ITI to Edison are F.O.B. Destination. The "DESTINATION" will be any Edison branch location located in the States of California or Washington as Edison may designate from time to time in its sole and absolute discretion. ITI shall pay all ground transportation fees, costs and charges, including, without limitation, insurance, handling and loading charges; provided, however, that Edison shall reimburse ITI for the cost of air freight in the event Edison requests product to be shipped by air freight. Title to product and risk of loss shall transfer to Edison upon delivery of product to the Destination.

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20. WARRANTY. ITI extends to Edison its standard warranty, as the same may change from time to time. A copy of ITI's current standard warranty is attached hereto as EXHIBIT B. EXCEPT AS EXPRESSLY PROVIDED IN ITI'S STANDARD WARRANTY, ITI MAKES NO WARRANTY OF ANY KIND, EXPRESS OR IMPLIED, WITH RESPECT TO ANY PRODUCT OR PORTION THEREOF, INCLUDING, BUT NOT LIMITED TO, THE IMPLIED WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE. ITI SHALL UNDER NO CIRCUMSTANCES BE LIABLE TO EDISON OR ANY THIRD PARTY FOR SPECIAL, INCIDENTAL, CONSEQUENTIAL OR EXEMPLARY DAMAGES OF NATURE WHATSOEVER, EVEN IF ITI SHALL HAVE BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES.

21. RETURNS. Returns of product to ITI shall be made in accordance with the Distribution Plan to be delivered by ITI to Edison in accordance with PARAGRAPH 8 above.

22. CONFIDENTIALITY; PUBLICITY. Edison agrees not to disclose the terms and conditions of this Agreement, including, but not limited to, the prices set forth on EXHIBIT A, to any third party except, and only to the extent, as required by law. Neither party will publicly announce or disclose the terms and conditions of this Agreement, or advertise or release any publicity regarding this Agreement or the existence of this Agreement, without the prior written consent of the other party.

23. INDEMNIFICATION.

A) Edison shall indemnify, defend and hold ITI and its legal representatives, agents, employees, divisions, subsidiaries, affiliates and their successors and assigns, harmless from and against any loss, claim, liability, damage or expense (including reasonable legal expenses and costs) that ITI or they may suffer, sustain or become subject to, as a result of any alleged act, omission or obligation of or by Edison or Edison's agents arising out of (i) the sale, installation, maintenance and/or monitoring of product purchased pursuant to this Agreement; (ii) Edison's operation of its business pursuant to this Agreement; or (iii) any alleged breach by Edison of any provision of this Agreement. Edison will reimburse any entity entitled to be indemnified hereunder for all expenses (including reasonable legal expenses and costs) as they are incurred in connection with investigating or defending any such action or claim, whether or not in connection with pending or threatened litigation in which the entity is a party.

B) ITI shall indemnify, defend and hold Edison and its legal representatives, agents, employees, divisions, subsidiaries, affiliates and their successors and assigns, harmless from and against any loss, claim, liability, damage or expense (including reasonable legal expenses and costs) that Edison or they may suffer, sustain or become

subject to, as a result of (i) any actual or alleged infringement of any patent, copyright or other intellectual property right of any third party arising out of or based upon services

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performed by ITI or product delivered by ITI under this Agreement; (ii) any alleged or actual infringement of any patent, copyright or other intellectual property right of any third party that arises out of or is based upon any written materials provided by ITI to Edison pursuant to the terms of this Agreement; and (iii) any claim for injury, damage or other liability by any employee of ITI where such ITI employee has attended a field call with an Edison employee or is on Edison's premises, other than injury, damage or other liability established to have been caused by the sole negligence of Edison. ITI will reimburse any entity entitled to be indemnified hereunder for all expenses (including reasonable legal expenses and costs) as they are incurred in connection with investigating or defending any such action or claim, whether or not in connection with pending or threatened litigation in which the entity is a party.

24. TERMINATION. Notwithstanding anything contained in this Agreement to the contrary, either party shall have the right to terminate this Agreement, in the event the other party materially breaches any of the covenants, agreements, representations or warranties set forth herein or fails to perform any obligation of it hereunder, by giving the other party written notice indicating its intent to terminate this Agreement together with a description of the alleged grounds for termination. This Agreement will be deemed terminated in the event the breaching party has not substantially cured the breach identified in such written notice within ten (10) working days following receipt of such notice. Notwithstanding the termination or expiration of this Agreement, each of the parties hereto shall be required to carry out any provision hereof that contemplates performance subsequent to such termination or expiration and such termination or expiration shall not affect any liability or other obligation that shall have accrued prior to termination or expiration.

25. MISCELLANEOUS.

A) The relationship between Edison and ITI shall be that of independent contractors, and nothing contained herein shall be construed or applied to create between Edison and ITI the relationship of principal and agent, partners, joint ventures or employer and employee.

B) No waiver, modification or amendment of any term, condition or provision of this Agreement shall be valid, binding or of any effect

unless made in writing, signed by both Edison and ITI, and specifying with particularity the nature and extent of such waiver, modification or amendment.

C) All correspondence or other notices shall be in writing and considered delivered if sent by first class mail, postage prepaid, at the address listed below:

Interactive Technologies, Inc.
2266 North Second Street
North St. Paul, Minnesota 55109

Edison Select / Edison Security Services
13191 Crossroads Parkway North
City of Industry, California 91746
Attention: Craig Knauf

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D) This Agreement shall be governed by and construed in accordance with the laws of the State of California.

E) Except for actions by ITI to collect amounts owed to ITI by Edison pursuant to the terms and conditions of this Agreement and any purchase orders hereunder, any dispute, controversy or claim arising out of or in connection with this Agreement shall be settled by binding arbitration in accordance with the rules of the American Arbitration Association, which arbitration shall take place at a location mutually agreeable to both parties.

26. EXCLUSIVE TERMS. This Agreement, including any exhibits attached hereto or documents expressly referred to herein, contains the entire agreement between Edison and ITI and supersedes and cancels any and all other agreements, whether oral or in writing, between Edison and ITI with respect to the matters referred to herein. Any term or condition in any purchase order, confirmation or other document furnished by Edison that is in any way inconsistent with or in addition to the terms and conditions of the Agreement is hereby expressly rejected by both Edison and ITI.

Entered into on December 15, 1998.

EDISON SELECT, an Edison International
Company

INTERACTIVE TECHNOLOGIES, INC.

By: /s/ Michael L. Merlo

By: /s/ Thomas L. Auth

Michael L. Merlo, President

Thomas L. Auth, CEO and President

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LEASE AGREEMENT

BY AND BETWEEN

AETNA INSTITUTIONAL INVESTORS I LIMITED PARTNERSHIP,
A CONNECTICUT LIMITED PARTNERSHIP

AS LANDLORD

AND

INTERACTIVE TECHNOLOGIES, INC.

AS TENANT

DATE DECEMBER 18, 1998

LA PALMA/MODIFIED GROSS

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EXHIBIT

- A Diagram of the Premises
- B Tenant Improvements

B-1	Final Plans and Specifications for Tenant Improvements
C	Commencement and Expiration Date Memorandum
D	Rules and Regulations
E	Sign Criteria
F	Hazardous Materials Disclosure Certificate
G	Tenant Improvements Loan Amortization Memorandum

ADDENDA

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LA PALMA/MODIFIED GROSS

LEASE AGREEMENT

BASIC LEASE INFORMATION

LEASE DATE: December 18, 1998

LANDLORD: AETNA INSTITUTIONAL INVESTORS I LIMITED PARTNERSHIP, a Connecticut limited partnership

LANDLORD'S ADDRESS: c/o Allegis Realty Investors LLC
1740 Technology Drive, Suite 600
San Jose, California 95110

ALL NOTICES SENT TO LANDLORD UNDER THIS LEASE SHALL BE SENT TO THE ABOVE ADDRESS, WITH COPIES TO:

Trammell Crow Company So. Cal., Inc.
2970 E. La Palma Avenue, Suite M
Anaheim, California 92806

TENANT: Interactive Technologies, Inc.

TENANT'S CONTACT PERSON: Jerry Murphy

TENANT'S ADDRESS AND TELEPHONE NUMBER: 2970 East La Palma Avenue, Suite D&E, Anaheim, CA 92806 (714) 632-9338

PREMISES SQUARE FOOTAGE: Approximately Three Thousand Two Hundred Fifty-two (3,252) rentable square feet.

PREMISES ADDRESS: 2970 E. La Palma Avenue, Suite D&E, Anaheim, California 92806

PROJECT: La Palma Corporate Park together with the land on which the Project is situated and all Common Areas

(IF NOT THE SAME AS THE PROJECT): 2970 E. La Palma Avenue, Suite D&E, Anaheim, California 92806

TENANT'S PROPORTIONATE SHARE OF PROJECT: 1.16%

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LA PALMA/MODIFIED GROSS

TENANT'S PROPORTIONATE SHARE OF BUILDING: 15.54%

LENGTH OF TERM: Thirty-six (36) months. Full execution of this lease will cancel that lease dated April 24, 1998 between Aetna Institutional Investors I Limited Partnership and Interactive Technologies, Inc. for that space located at 2970 E. La Palma Avenue, Suite F, Anaheim, CA 92806.

ESTIMATED COMMENCEMENT DATE: January 1, 1999

ESTIMATED EXPIRATION DATE: December 31, 2002

MONTHLY BASE RENT:		MONTHLY	MONTHLY
MONTHS	SQ. FT.	BASE RENT	BASE RENT
01-12	3,252	x \$0.70	\$2,276.40

13-24	3,252	x \$0.73	\$2,373.96
25-36	3,252	x \$0.76	\$2,471.52

ESCALATIONS: See above. There is an additional tenants' proportionate share of expenses charge of \$0.03 per square foot the first year and \$0.035 the second year.

PREPAID RENT: N/A (\$0.00)

PREPAID ADDITIONAL RENT: N/A (\$0-00)

TO WHICH PREPAID BASE RENT AND
ADDITIONAL RENT WILL BE APPLIED: N/A

BASE YEAR: 1998

SECURITY DEPOSIT: One Thousand Two Hundred Fifty-one and 77/100 (\$1,251.77) dollars. Tenant currently has \$1,219.75 on file.

PERMITTED USE: General office and warehouse for repair and distribution of security products.

UNRESERVED PARKING SPACES: Eight (8) non assigned spaces

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BROKER(S): Trammell Crow Company

TENANT IMPROVEMENTS ALLOWANCE: See Exhibit "B-1"

TENANT IMPROVEMENTS LOAN: N/A (\$0.00)

ARCHITECT: N/A

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LEASE AGREEMENT

THIS LEASE AGREEMENT is made and entered into by and between Landlord and

Tenant on the Lease Date. The defined terms used in this Lease which are defined in the Basic Lease Information attached to this Lease Agreement ("Basic Lease Information") shall have the meaning and definition given them in the Basic Lease Information. The Basic Lease Information, the exhibits, the addendum or addenda described in the Basic Lease Information, and this Lease Agreement are and shall be construed as a single instrument and are referred to herein as the "Lease".

1. DEMISE

In consideration for the rents and all other charges and payments payable by Tenant, and for the agreements, terms and conditions to be performed by Tenant in this Lease, LANDLORD DOES HEREBY LEASE TO TENANT, AND TENANT DOES HEREBY HIRE AND TAKE FROM LANDLORD, the Premises described below (the "Premises"), upon the agreements, terms and conditions of this Lease for the Term hereinafter stated.

2. PREMISES

The Premises demised by this Lease is located in that certain building (the "Building") specified in the Basic Lease Information, which Building is located in that certain real estate development (the "Project") specified in the Basic Lease Information. The Premises has the address and contains the square footage specified in the Basic Lease Information. The location and dimensions of the Premises are depicted on EXHIBIT A, which is attached hereto and incorporated herein by this reference. Tenant shall have the non-exclusive right (in common with the other tenants, Landlord and any other person granted use by Landlord) to use the Common Areas (as hereinafter defined), except that, with respect to parking, Tenant shall have only a license to use the number of non-exclusive and undesignated parking spaces set forth in the Basic Lease Information in the Project's parking areas (the "Parking Areas"); provided, however, that Landlord shall not be required to enforce Tenant's right to use such parking spaces; and, provided further, that the number of parking spaces allocated to Tenant hereunder shall be reduced on a proportionate basis in the event any of the parking spaces in the Parking Areas are taken or otherwise eliminated as a result of any Condemnation (as hereinafter defined) or casualty event affecting such Parking Areas. No easement for light or air is incorporated in the Premises. For purposes of this Lease, the term "Common Areas" shall mean all areas and facilities outside the Premises and within the exterior boundary line of the Project that are provided and designated by Landlord for the non-exclusive use of Landlord, Tenant and other tenants of the Project and their respective employees, guests and invitees.

Tenant understands and agrees that the Premises shall be leased by Tenant in its as-is condition without any improvements or alterations by Landlord unless Landlord has

expressly agreed to make such improvements or alterations in a tenant improvement work agreement attached hereto, if at all, as EXHIBIT B. If Landlord has agreed to make any such improvements or alterations, then the Premises demised by this Lease shall include any Tenant Improvements (as that term is defined in the aforesaid tenant improvement work agreement) to be constructed by Landlord within the interior of the Premises. Landlord shall construct any Tenant Improvements on the terms and conditions set forth in EXHIBIT B, if attached hereto. Landlord and Tenant agree to and shall be bound by the terms and conditions of EXHIBIT B, if any.

Landlord has the right, in its sole discretion, from time to time, to: (a) make changes to the Common Areas, including, without limitation, changes in the location, size, shape and number of driveways, entrances, parking spaces, parking areas, ingress, egress, direction of driveways, entrances, corridors and walkways; (b) close temporarily any of the Common Areas for maintenance purposes so long as reasonable access to the Premises remains available; (c) add additional buildings and improvements to the Common Areas or remove existing buildings or improvements therefrom; (d) use the Common Areas while engaged in making additional improvements, repairs or alterations to the Project or any portion thereof, and (e) do and perform any other acts or make any other changes in, to or with respect to the Common Areas and the Project as Landlord may, in its sole discretion, deem to be appropriate.

3. TERM

The term of this Lease (the "Term") shall be for the period of months specified in the Basic Lease Information, commencing on the earliest to occur OF the following dates (the "Commencement Date"):

(a) The date Landlord delivers possession of the Premises to Tenant with all Tenant Improvements to be constructed by Landlord, if any, substantially complete; for purposes of this Paragraph 3(a), the Tenant Improvements shall be deemed to be substantially complete on the earlier of (i) the date the Tenant Improvements are approved by the appropriate governmental agency as being in accordance with its building code and the building permit issued for such improvements, as evidenced by the issuance of a final building inspection approval, or (ii) the date Landlord's architect and general contractor have both certified in writing to Tenant that the Tenant Improvements have been substantially completed in accordance with the plans and specifications therefor; or

(b) The date Tenant commences occupancy of the Premises.

In the event the actual Commencement Date, as determined pursuant to the foregoing, is a date other than the Estimated Commencement Date, then Landlord and Tenant shall promptly execute a Commencement and Expiration Date Memorandum in the form attached hereto as EXHIBIT C, wherein the parties shall specify the

Commencement Date, the date on which the Term expires (the "Expiration Date") and the date on which Tenant is to commence paying Rent.

4. RENT

(a) BASE RENT. Tenant shall pay to Landlord, in advance on the first day of each month, without further notice or demand and without offset or deduction, the monthly installments of rent specified in the Basic Lease Information (the "Base Rent").

Upon execution of this Lease, Tenant shall pay to Landlord the Prepaid Rent and first monthly installment of estimated Additional Rent (as hereinafter defined) specified in the Basic Lease Information to be applied toward Base Rent and Additional Rent for the month of the Term specified in the Basic Lease Information.

(b) ADDITIONAL RENT.

(1) During the Term, in addition to the Base Rent, Tenant shall pay to Landlord as additional rent (the "Additional Rent") (i) Tenant's Proportionate Share of the Expenses, (ii) Tenant's Proportionate Share(s) of the dollar increase, if any, in Insurance Expenses (as defined below) attributable to each Computation Year over Base Expenses (as defined below), and (iii) Tenant's Proportionate Share(s) of the total dollar increase, if any, in Taxes (as defined below) attributable to each Computation Year over Base Taxes (as defined below).

(2) As used in this Lease, the following terms shall have the meanings specified:

(i) "Tenant's Proportionate Share of Expenses" means the following: (A) for the months 1 through 12, \$0.03 per rentable square foot per month (i.e., \$48.81); (B) for the months 13 through 24, \$0.035 per rentable square foot per month (i.e., \$56.95); Landlord and Tenant agree that Tenant's Proportionate Share of Expenses is the stipulated amount of the costs and expenses relating to Landlord's and operation of the Project and the Building which Tenant is to pay and Landlord's agreement to accept such amount and Tenant's agreement to pay such amount shall not be affected by the possibility that Tenant's share of actual costs and expenses might be higher or lower than such stipulated amount.

(ii) "Insurance Expense" means the total costs and expenses paid or incurred by Landlord in connection with the obtaining of insurance on the Premises, the Building and/or the Project or any part thereof or interest therein, including, without limitation, premiums for "all risk" fire and

extended coverage insurance, commercial general liability insurance, rent loss or abatement insurance, earthquake insurance, flood or

surface water coverage, and other insurance as Landlord deems necessary in its sole discretion, and any deductibles paid under policies of any such insurance.

(iii) "Taxes" means all real estate taxes and assessments, which shall include any form of tax, assessment, fee, license fee, business license fee, levy, penalty (if a result of Tenant's delinquency), or tax (other than net income, estate, succession, inheritance, transfer or franchise taxes), imposed by any authority having the direct or indirect power to tax, or by any city, county, state or federal government or any improvement or other district or division thereof, whether such tax is (i) determined by the area of the Premises, the Building and/or the Project or any part thereof, or the Rent and other sums payable hereunder by Tenant or by other tenants, including, but not limited to, any gross income or excise tax levied by any of the foregoing authorities with respect to receipt of Rent and/or other sums due under this Lease; (ii) upon any legal or equitable interest of Landlord in the Premises, the Building and/or the Project or any part thereof, (iii) upon this transaction or any document to which Tenant is a party creating or transferring any interest in the Premises, the Building and/or the Project; (iv) levied or assessed in lieu of, in substitution for, or in addition to, existing or additional taxes against the Premises, the Building and/or the Project, whether or not now customary or within the contemplation of the parties; or (v) surcharged against the parking area. Tenant and Landlord acknowledge that Proposition 13 was adopted by the voters of the State of California in the June, 1978 election and that assessments, taxes, fees, levies and charges may be imposed by governmental agencies for such purposes as fire protection, street, sidewalk, road, utility construction and maintenance, refuse removal and for other governmental services which may formerly have been provided without charge to property owners or occupants. It is the intention of the parties that all new and increased assessments, taxes, fees, levies and charges due to any cause whatsoever are to be included within the definition of real property taxes for purposes of this Lease. "Taxes" shall also include legal and consultants' fees, costs and disbursements incurred in connection with proceedings to contest, determine or reduce taxes, Landlord specifically reserving the right, but not the obligation, to contest by appropriate legal proceedings the amount or validity of any taxes.

(iv) "Base Year" shall mean the calendar year specified in the Basic Lease Information.

(v) "Base Insurance Expenses" shall mean the amount of Insurance Expenses for the Base Year.

(vi) "Base Taxes" shall mean the amount of Taxes for the Base Year.

(vii) "Computation Year" shall mean each twelve (12) consecutive month period commencing January 1 of each year during the Term following the Base Year, provided that Landlord, upon notice to Tenant, may change the Computation Year from

time to time to any other twelve (12) consecutive month period, and, in the event of any such change, Tenant's Proportionate Share(s) of Expenses over Base Expenses, of Insurance Expenses over Base Insurance Expenses, and of Taxes over Base Taxes shall be equitably adjusted for the Computation Years involved in any such change.

(c) PAYMENT OF ADDITIONAL RENT.

(1) During the last month of the Base Year and each Computation Year or as soon thereafter as practicable, Landlord shall give to Tenant notice of Landlord's estimate of the total amounts that will be payable by Tenant under Section 4(b) for the following Computation Year, and Tenant shall pay such estimated Additional Rent on a monthly basis, in advance, on the first day of each month. Tenant shall continue to make said monthly payments until notified by Landlord of a change therein. If at any time or times Landlord determines that the amounts payable under Section 4(b) for the current Computation Year will vary from Landlord's estimate given to Tenant, Landlord, by notice to Tenant, may revise the estimate for such Computation Year, and subsequent payments by Tenant for such Computation Year shall be based upon such revised estimate. By April 1 of each calendar year following the initial Computation Year, Landlord shall endeavor to provide to Tenant a statement showing the actual Additional Rent due to Landlord for the prior Computation Year. If the total of the monthly payments of Additional Rent that Tenant has made for the prior Computation Year is less than the actual Additional Rent chargeable to Tenant for such prior Computation Year, then Tenant shall pay the difference in a lump sum within ten (10) days after receipt of such statement from Landlord. Any overpayment by Tenant of Additional Rent for the prior Computation Year shall be credited towards the Additional Rent next due.

(2) Landlord's then-current annual operating and capital budgets for the Building and the Project or the pertinent part thereof shall be used for purposes of calculating Tenant's monthly payment of estimated Additional Rent for the current year, subject to adjustment as provided above. Landlord shall make the final determination of Additional Rent for the year in which this Lease terminates as soon as possible after termination of such year. Even though the Term has expired and Tenant has vacated the Premises, Tenant shall remain liable

for payment of any amount due to Landlord in excess of the estimated Additional Rent previously paid by Tenant, and, conversely, Landlord shall promptly return to Tenant any overpayment. Failure of Landlord to submit statements as called for herein shall not be deemed a waiver of Tenant's obligation to pay Additional Rent as herein provided.

(3) With respect to Expenses which Landlord allocates to the Building, Tenant's "Proportionate Share" shall be the percentage set forth in the Basic Lease Information as Tenant's Proportionate Share of the Building, as adjusted by Landlord from time to time for a remeasurement of or changes in the physical size of the Premises or the Building, whether such changes in size are due to an addition to or a sale or conveyance of a portion of the Building or otherwise. With respect to Expenses which

Landlord allocates to the Project as a whole or to only a portion of the Project, Tenant's "Proportionate Share" shall be, with respect to Expenses which Landlord allocates to the Project as a whole, the percentage set forth in the Basic Lease Information as Tenant's Proportionate Share of the Project and, with respect to Expenses which Landlord allocates to only a portion of the Project, a percentage calculated by Landlord from time to time in its sole discretion and furnished to Tenant in writing, in either case as adjusted by Landlord from time to time for a remeasurement of or changes in the physical size of the Premises or the Project, whether such changes in size are due to an addition to or a sale or conveyance of a portion of the Project or otherwise. Notwithstanding the foregoing, Landlord may equitably adjust Tenant's Proportionate Share(s) for all or part of any item of expense or cost reimbursable by Tenant that relates to a repair, replacement, or service that benefits only the Premises or only a portion of the Building and/or the Project or that varies with the occupancy of the Building and/or the Project. Without limiting the generality of the foregoing, Tenant understands and agrees that Landlord shall have the right to adjust Tenant's Proportionate Share(s) of any Utility Expenses based upon Tenant's use of the Utilities or similar services as reasonably estimated and determined by Landlord based upon factors such as size of the Premises and intensity of use of such Utilities by Tenant such that Tenant shall pay the portion of such charges reasonably consistent with Tenant's use of such Utilities and similar services. If Tenant disputes any such estimate or determination of Utility Expenses, then Tenant shall either pay the estimated amount or cause the Premises to be separately metered at Tenant's sole expense.

(d) GENERAL PAYMENT TERMS. The Base Rent, Additional Rent and all other sums payable by Tenant to Landlord hereunder, including, without limitation, payments of principal and interest on the Tenant Improvements Loan (as defined in EXHIBIT B hereto), if any, any late charges assessed pursuant to Paragraph 6 below and any interest assessed pursuant to Paragraph 45 below, are

referred to as the "Rent". All Rent shall be paid without deduction, offset or abatement in lawful money of the United States of America. Checks are to be made payable to Aetna Institutional Investors I Limited Partnership and shall be mailed to: Trammell Crow Company, 2970 E. La Palma Avenue, Suite M, Anaheim, California 92806, or to such other person or place as Landlord may, from time to time, designate to Tenant in writing. The Rent for any fractional part of a calendar month at the commencement or termination of the Lease term shall be a prorated amount of the Rent for a full calendar month based upon a thirty (30) day month.

5. UTILITY EXPENSES

(a) Tenant shall pay the cost of all water, sewer use, sewer discharge fees and permit costs and sewer connection fees, gas, heat, electricity, refuse pick-up, janitorial service, telephone and all materials and services or other utilities (collectively, "Utilities") billed or metered separately to the Premises and/or Tenant, together with all taxes, assessments, charges and penalties added to or included within such cost. Tenant acknowledges that the Premises, the Building and/or the Project may become subject to

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the rationing of Utility services or restrictions on Utility use as required by a public utility company, governmental agency or other similar entity having jurisdiction thereof. Tenant acknowledges and agrees that its tenancy and occupancy hereunder shall be subject to such rationing or restrictions as may be imposed upon Landlord, Tenant, the Premises, the Building and/or the Project, and Tenant shall in no event be excused or relieved from any covenant or obligation to be kept or performed by Tenant by reason of any such rationing or restrictions. Tenant agrees to comply with energy conservation programs implemented by Landlord by reason of rationing, restrictions or Laws.

(b) Landlord shall not be liable for any loss, injury or damage to property caused by or resulting from any variation, interruption, or failure of Utilities due to any cause whatsoever, or from failure to make any repairs or perform any maintenance. No temporary interruption or failure of such services incident to the making of repairs, alterations, improvements, or due to accident, strike, or conditions or other events shall be deemed an eviction of Tenant or relieve Tenant from any of its obligations hereunder. In no event shall Landlord be liable to Tenant for any damage to the Premises or for any loss, damage or injury to any property therein or thereon occasioned by bursting, rupture, leakage or overflow of any plumbing or other pipes (including, without limitation, water, steam, and/or refrigerant lines), sprinklers, tanks, drains, drinking fountains or washstands, or other similar cause in, above, upon or about the Premises, the building, or the Project.

6. LATE CHARGE

Notwithstanding any other provision of this Lease, Tenant hereby acknowledges that late payment to Landlord of Rent, or other amounts due hereunder will cause Landlord to incur costs not contemplated by this Lease, the exact amount of which will be extremely difficult to ascertain. If any Rent or other sums due from Tenant are not received by Landlord or by Landlord's designated agent within three (3) days after their due date, then Tenant shall pay to Landlord a late charge equal to ten percent (10%) of such overdue amount, plus any costs and attorneys' fees incurred by Landlord by reason of Tenant's failure to pay Rent and/or other charges when due hereunder. Landlord and Tenant hereby agree that such late charges represent a fair and reasonable estimate of the cost that Landlord will incur by reason of Tenant's late payment and shall not be construed as a penalty. Landlord's acceptance of such late charges shall not constitute a waiver of Tenant's default with respect to such overdue amount or estop Landlord from exercising any of the other rights and remedies granted under this Lease.

INITIALS: LANDLORD _____ TENANT _____

7. SECURITY DEPOSIT

Concurrently with Tenant's execution of the Lease, Tenant shall deposit with Landlord the Security Deposit specified in the Basic Lease Information as security for the

full and faithful performance of each and every term, covenant and condition of this Lease. Landlord may use, apply or retain the whole or any part of the Security Deposit as may be reasonably necessary (a) to remedy Tenant's default in the payment of any Rent, (b) to repair damage to the Premises caused by Tenant, (c) to clean the Premises upon termination of this Lease, (d) to reimburse Landlord for the payment of any amount which Landlord may reasonably spend or be required to spend by reason of Tenant's default, or (e) to compensate Landlord for any other loss or damage which Landlord may suffer by reason of Tenant's default. Should Tenant faithfully and fully comply with all of the terms, covenants and conditions of this Lease, within thirty (30) days following the expiration of the Term, the Security Deposit or any balance thereof shall be returned to Tenant or, at the option of Landlord, to the last assignee of Tenant's interest in this Lease. Landlord shall not be required to keep the Security Deposit separate from its general funds and Tenant shall not be entitled to any interest on such deposit. If Landlord so uses or applies all or any portion of said deposit, within five (5) days after written demand therefor Tenant shall deposit cash with Landlord in an amount sufficient to restore the Security Deposit to the full extent of the above amount, and

Tenant's failure to do so shall be a default under this Lease. In the event Landlord transfers its interest in this Lease, Landlord shall transfer the then remaining amount of the Security Deposit to Landlord's successor in interest, and thereafter Landlord shall have no further liability to Tenant with respect to such Security Deposit.

8. POSSESSION

(a) TENANT'S RIGHT OF POSSESSION. Subject to Paragraph 8(b), Tenant shall be entitled to possession of the Premises upon commencement of the Term.

(b) DELAY IN DELIVERING POSSESSION. If for any reason whatsoever, Landlord cannot deliver possession of the Premises to Tenant on or before the Estimated Commencement Date, this Lease shall not be void or voidable, nor shall Landlord, or Landlord's agents, advisors, employees, partners, shareholders, directors, invitees or independent contractors (collectively, "Landlord's Agents"), be liable to Tenant for any loss or damage resulting therefrom. Tenant shall not be liable for Rent until Landlord delivers possession of the Premises to Tenant. The Expiration Date shall be extended by the same number of days that Tenant's possession of the Premises was delayed beyond the Estimated Commencement Date.

9. USE OF PREMISES

(a) PERMITTED USE. The use of the Premises by Tenant and Tenant's agents, advisors, employees, partners, shareholders, directors, invitees and independent contractors (collectively, "Tenant's Agents") shall be solely for the Permitted Use specified in the Basic Lease Information and for no other use. Tenant shall not permit any objectionable or unpleasant odor, smoke, dust, gas, noise or vibration to emanate from or near the Premises. The Premises shall not be used to create any nuisance or

trespass, for any illegal purpose, for any purpose not permitted by Laws, for any purpose that would invalidate the insurance or increase the premiums for insurance on the Premises, the Building or the Project or for any purpose or in any manner that would interfere with other tenants' use or occupancy of the Project. Tenant agrees to pay to Landlord, as Additional Rent, any increases in premiums on policies resulting from Tenant's Permitted Use or any other use or action by Tenant or Tenant's Agents which increases Landlord's premiums or requires additional coverage by Landlord to insure the Premises. Tenant agrees not to overload the floor(s) of the Building.

(b) COMPLIANCE WITH GOVERNMENTAL REGULATIONS AND PRIVATE RESTRICTIONS. Tenant and Tenant's Agents shall, at Tenant's expense, faithfully observe and comply with (1) all municipal, state and federal laws, statutes, codes, rules,

regulations, ordinances, requirements, and orders (collectively, "Laws"), now in force or which may hereafter be in force pertaining to the Premises or Tenant's use of the Premises, the Building or the Project, including without limitation, any Laws requiring installation of fire sprinkler systems, seismic reinforcement and related alterations, and removal of asbestos, whether substantial in cost or otherwise, provided, however, that except as provided in Paragraph 9(c) below, Tenant shall not be required to make or, except as provided in Paragraph 4 above, pay for, structural changes to the Premises or the Building not related to Tenant's specific use of the Premises unless the requirement for such changes is imposed as a result of any improvements or additions made or proposed to be made at Tenant's request; (2) all recorded covenants, conditions and restrictions affecting the Project ("Private Restrictions") now in force or which may hereafter be in force; and (3) any and all rules and regulations set forth in EXHIBIT D and any other rules and regulations now or hereafter promulgated by Landlord related to parking or the operation of the Premises, the Building and/or the Project (collectively, the "Rules and Regulations"). The judgment of any court of competent jurisdiction, or the admission of Tenant in any action or proceeding against Tenant, whether Landlord be a party thereto or not, that Tenant has violated any such Laws or Private Restrictions, shall be conclusive of that fact as between Landlord and Tenant.

(c) COMPLIANCE WITH AMERICANS WITH DISABILITIES ACT. Landlord and Tenant hereby agree and acknowledge that the Premises, the Building and/or the Project may be subject to, among other Laws, the requirements of the Americans with Disabilities Act, a federal law codified at 42 U.S.C. 12101 ET SEQ., including, but not limited to Title III thereof, and all regulations and guidelines related thereto, together with any and all laws, rules, regulations, ordinances, codes and statutes now or hereafter enacted by local or state agencies having jurisdiction thereof, including all requirements of Title 24 of the State of California, as the same may be in effect on the date of this Lease and may be thereafter modified, amended or supplemented (collectively, the "ADA"). Any Tenant Improvements to be constructed hereunder shall be in compliance with the requirements of the ADA, and all costs incurred for purposes of compliance therewith shall be a part of and included in the costs of the Tenant Improvements. Tenant shall be solely responsible for conducting its own independent investigation of this matter and for ensuring that the

design of all Tenant Improvements strictly complies with all requirements of the ADA. Subject to reimbursement pursuant to Paragraph 4 above, if any barrier removal work or other work is required to the Building, the Common Areas or the Project under the ADA, then such work shall be the responsibility of Landlord; provided, if such work is required under the ADA as a result of Tenant's use of the Premises or any work or Alteration (as hereinafter defined) made to the Premises by or on behalf of Tenant, then such work shall be performed by

Landlord at the sole cost and expense of Tenant. Except as otherwise expressly provided in this provision, Tenant shall be responsible at its sole cost and expense for fully and faithfully complying with all applicable requirements of the ADA, including without limitation, not discriminating against any disabled persons in the operation of Tenant's business in or about the Premises, and offering or otherwise providing auxiliary aids and services as, and when, required by the ADA. Within ten (10) days after receipt, Tenant shall advise Landlord in writing, and provide Landlord with copies of (as applicable), any notices alleging violation of the ADA relating to any portion of the Premises, the Building or the Project; any claims made or threatened orally or in writing regarding noncompliance with the ADA and relating to any portion of the Premises, the Building, or the Project; or any governmental or regulatory actions or investigations instituted or threatened regarding noncompliance with the ADA and relating to any portion of the Premises, the Building or the Project. Tenant shall and hereby agrees to protect, defend (with counsel acceptable to Landlord) and hold Landlord and Landlord's Agents harmless and indemnify Landlord and Landlord's Agents from and against all liabilities, damages, claims, losses, penalties, judgments, charges and expenses (including attorneys' fees, costs of court and expenses necessary in the prosecution or defense of any litigation including the enforcement of this provision) arising from or in any way related to, directly or indirectly, Tenant's or Tenant's Agents' violation or alleged violation of the ADA. Tenant agrees that the obligations of Tenant herein shall survive the expiration or earlier termination of this Lease.

10. ACCEPTANCE OF PREMISES

By entry hereunder, Tenant accepts the Premises as suitable for Tenant's intended use and as being in good and sanitary operating order, condition and repair, AS IS, and without representation or warranty by Landlord as to the condition, use or occupancy which may be made thereof. Any exceptions to the foregoing must be by written agreement executed by Landlord and Tenant.

11. SURRENDER

Tenant agrees that on the last day of the Term, or on the sooner termination of this Lease, Tenant shall surrender the Premises to Landlord (a) in good condition and repair (damage by acts of God, fire, and normal wear and tear excepted), but with all interior walls painted or cleaned so they appear painted, any carpets cleaned, all floors cleaned and waxed, all non-working light bulbs and ballasts replaced and all roll-up doors and plumbing fixtures in good condition and working order, and (b) otherwise in accordance

with Paragraph 32(h). Normal wear and tear shall not include any damage or

deterioration to the floors of the Premises arising from the use of forklifts in, on or about the Premises (including, without limitation, any marks or stains on any portion of the floors), and any damage or deterioration that would have been prevented by proper maintenance by Tenant, or Tenant otherwise performing all of its obligations under this Lease. On or before the expiration or sooner termination of this Lease, (i) Tenant shall remove all of Tenant's Property (as hereinafter defined) and Tenant's signage from the Premises, the Building and the Project and repair any damage caused by such removal, and (ii) Landlord may, by notice to Tenant given not later than ninety (90) days prior to the Expiration Date (except in the event of a termination of this Lease prior to the scheduled Expiration Date, in which event no advance notice shall be required), require Tenant at Tenant's expense to remove any or all Alterations and/or the initial Tenant Improvements constructed and installed pursuant to EXHIBIT B hereto, and to repair any damage caused by such removal. Any of Tenant's Property not so removed by Tenant as required herein shall be deemed abandoned and may be stored, removed, and disposed of by Landlord at Tenant's expense, and Tenant waives all claims against Landlord for any damages resulting from Landlord's retention and disposition of such property; provided, however, that Tenant shall remain liable to Landlord for all costs incurred in storing and disposing of such abandoned property of Tenant. All Tenant Improvements and Alterations except those which Landlord requires Tenant to remove shall remain in the Premises as the property of Landlord. If the Premises are not surrendered at the end of the Term or sooner termination of this Lease, and in accordance with the provisions of this Paragraph 11 and Paragraph 32(h) below, Tenant shall continue to be responsible for the payment of Rent (as the same may be increased pursuant to Paragraph 35 below) until the Premises are so surrendered in accordance with said Paragraphs, and Tenant shall indemnify, defend and hold Landlord harmless from and against any and all loss or liability resulting from delay by Tenant in so surrendering the Premises including, without limitation, any loss or liability resulting from any claim against Landlord made by any succeeding tenant or prospective tenant founded on or resulting from such delay and losses to Landlord due to lost opportunities to lease any portion of the Premises to any such succeeding tenant or prospective tenant, together with, in each case, actual attorneys' fees and costs.

12. ALTERATIONS AND ADDITIONS

(a) Tenant shall not make, or permit to be made, any alteration, addition or improvement (hereinafter referred to individually as an "Alteration" and collectively as the "Alterations") to the Premises or any part thereof without the prior written consent of Landlord, which consent shall not be unreasonably withheld; provided, however, that Landlord shall have the right in its sole and absolute discretion to consent or to withhold its consent to any Alteration which affects the structural portions of the Premises, the Building or the Project or the Systems serving the Premises, the Building and/or the Project or any portion thereof.

(b) Any Alteration to the Premises shall be at Tenant's sole cost and expense, in compliance with all applicable Laws and all requirements requested by Landlord, including, without limitation, the requirements of any insurer providing coverage for the Premises or the Project or any part thereof, and in accordance with plans and specifications approved in writing by Landlord, and shall be constructed and installed by a contractor approved in writing by Landlord. As a further condition to giving consent, Landlord may require Tenant to provide Landlord, at Tenant's sole cost and expense, a payment and performance bond in form acceptable to Landlord, in a principal amount not less than one and one-half times the estimated costs of such Alterations, to ensure Landlord against any liability for mechanic's and materialmen's liens and to ensure completion of work. Before Alterations may begin, valid building permits or other permits or licenses required must be furnished to Landlord, and, once the Alterations begin, Tenant will diligently and continuously pursue their completion. Landlord may monitor construction of the Alterations and Tenant shall reimburse Landlord for its costs (including, without limitation, the costs of any construction manager retained by Landlord) in reviewing plans and documents and in monitoring construction. Tenant shall maintain during the course of construction, at its sole cost and expense, builders' risk insurance for the amount of the completed value of the Alterations on an all-risk nonreporting form covering all improvements under construction, including building materials, and other insurance in amounts and against such risks as Landlord shall reasonably require in connection with the Alterations. In addition to and without limitation on the generality of the foregoing, Tenant shall ensure that its contractor(s) procure and maintain in full force and effect during the course of construction a "broad form" commercial general liability and property damage policy of insurance naming Landlord, Tenant and Landlord's lenders as additional insureds. The minimum limit of coverage of the aforesaid policy shall be in the amount of not less than Three Million Dollars (\$3,000,000.00) for injury or death of one person in any one accident or occurrence and in the amount of not less than Three Million Dollars (\$3,000,000.00) for injury or death of more than one person in any one accident or occurrence, and shall contain a severability of interest clause or a cross liability endorsement. Such insurance shall further insure Landlord and Tenant against liability for property damage of at least One Million Dollars (\$1,000,000.00).

(c) All Alterations, including, but not limited to, heating, lighting, electrical, air conditioning, fixed partitioning, drapery, wall covering and paneling, built-in cabinet work and carpeting installations made by Tenant, together with all property that has become an integral part of the Premises or the Building, shall at once be and become the property of Landlord, and shall not be deemed trade fixtures or Tenant's Property. If requested by Landlord, Tenant will pay, prior to the commencement of construction, an amount determined by Landlord necessary to cover the costs of demolishing such Alterations and/or the cost of returning the Premises and the Building to its condition prior to such Alterations.

(d) No private telephone systems and/or other related computer or telecommunications equipment or lines may be installed without Landlord's prior written consent. If Landlord gives such consent, all equipment must be installed within the Premises and, at the request of Landlord made at any time prior to the expiration of the Term, removed upon the expiration or sooner termination of this Lease and the Premises restored to the same condition as before such installation.

(e) Notwithstanding anything herein to the contrary, before installing any equipment or lights which generate an undue amount of heat in the Premises, or if Tenant plans to use any high-power usage equipment in the Premises, Tenant shall obtain the written permission of Landlord. Landlord may refuse to grant such permission unless Tenant agrees to pay the costs to Landlord for installation of supplementary air conditioning capacity or electrical systems necessitated by such equipment.

(f) Tenant agrees not to proceed to make any Alterations, notwithstanding consent from Landlord to do so, until Tenant notifies Landlord in writing of the date Tenant desires to commence construction or installation of such Alterations and Landlord has approved such date in writing, in order that Landlord may post appropriate notices to avoid any liability to contractors or material suppliers for payment for Tenant's improvements. Tenant will at all times permit such notices to be posted and to remain posted until the completion of work.

13. MAINTENANCE AND REPAIRS OF PREMISES

(a) MAINTENANCE BY TENANT. Throughout the Term, Tenant shall, at its sole expense, (1) subject to Landlord's repair and maintenance obligations set forth in Paragraph 13(b) below, keep and maintain in good order and condition the Premises, and repair and replace every part thereof, including skylights, interior and exterior doors, door frames and door closers, interior lighting (including, without limitation, light bulbs and ballasts), all communications systems serving the Premises, Tenant's signage, interior demising walls and partitions, equipment, interior painting and interior walls and floors, (2) furnish all expendables, including light bulbs, paper goods and soaps, used in the Premises, and (3) keep and maintain in good order and condition, repair and replace all of Tenant's security systems in or about or serving the Premises. Tenant shall not do nor shall Tenant allow Tenant's Agents to do anything to cause any damage, deterioration or unsightliness to the Premises, the Building or the Project.

(b) MAINTENANCE BY LANDLORD. Subject to the provisions of Paragraphs 13(a), 22 and 23, and further subject to Tenant's obligation under Paragraph 4 to reimburse Landlord, in the form of Additional Rent, for Tenant's Proportionate Share(s) of the cost and expense of the following items, Landlord

agrees to repair and maintain the following items: the glass, windows, window frames and window casements in or on the Premises or the Building; the roof coverings (provided that Tenant installs no additional air conditioning, or other equipment on the roof that damages the roof coverings, in which

event Tenant shall pay all costs resulting from the presence of such additional equipment); the roll-up doors, ramps and dock equipment, including, without limitation, dock bumpers, dock plates, dock seals, dock levelers and dock lights located in or on the Premises; the Parking Areas, pavement, landscaping, sprinkler systems, sidewalks, driveways, curbs, and lighting systems in the Common Areas; and the Systems serving the Premises and the Building; provided, however, that with respect to the repair and maintenance of the Systems serving the Premises, Landlord shall have the right in its sole and absolute discretion to either allocate the cost of such repair and maintenance to Tenant and other tenants of the Building and/or Project, as determined by Landlord, as Additional Rent, or to separately allocate such cost and expense to Tenant as contemplated under Paragraph 4(c)(3) above. Subject to the provisions of Paragraphs 13(a), 22 and 23, Landlord, at its own cost and expense, agrees to repair and maintain the following items: the structural portions of the roof (specifically excluding the roof coverings), the foundation, the footings, the floor slab, and the load bearing walls and exterior walls of the Building (excluding any glass and any routine maintenance, including, without limitation, any painting, sealing, patching and waterproofing of such walls). Notwithstanding anything in this Paragraph 13 to the contrary, Landlord shall have the right to either repair or to require Tenant to repair any damage to any portion of the Premises, the Building and/or the Project caused by or created due to any act, omission, negligence or willful misconduct of Tenant or Tenant's Agents and to restore the Premises, the Building and/or the Project, as applicable, to the condition existing prior to the occurrence of such damage; provided, however, that in the event Landlord elects to perform such repair and restoration work, Tenant shall reimburse Landlord upon demand for all costs and expenses incurred by Landlord in connection therewith. Landlord's obligation hereunder to repair and maintain is subject to the condition precedent that Landlord shall have received written notice of the need for such repairs and maintenance and a reasonable time to perform such repair and maintenance. Tenant shall promptly report in writing to Landlord any defective condition known to it which Landlord is required to repair, and failure to so report such defects shall make Tenant responsible to Landlord for any liability incurred by Landlord by reason of such condition.

(c) TENANT'S WAIVER OF RIGHTS. Tenant hereby expressly waives all rights to make repairs at the expense of Landlord or to terminate this Lease, as provided for in California Civil Code Sections 1941 and 1942, and 1932(1), respectively, and any similar or successor statute or law in effect or any amendment thereof during the Term.

14. LANDLORD'S INSURANCE

Landlord shall purchase and keep in force fire, extended coverage and "all risk" insurance covering the Building and the Project. Tenant shall, at its sole cost and expense, comply with any and all reasonable requirements pertaining to the Premises, the Building and the Project of any insurer necessary for the maintenance of reasonable fire and commercial general liability insurance, covering the Building and the Project. Landlord, at Tenant's cost, may maintain "Loss of Rents" insurance, insuring that the

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Rent will be paid in a timely manner to Landlord for a period of at least twelve (12) months if the Premises, the Building or the Project or any portion thereof are destroyed or rendered unusable or inaccessible by any cause insured against under this Lease.

15. TENANT'S INSURANCE

COMMERCIAL GENERAL LIABILITY INSURANCE. Tenant shall, at Tenant's expense, secure and keep in force a "broad form" commercial general liability insurance and property damage policy covering the Premises, insuring Tenant, and naming Landlord and its lenders as additional insureds, against any liability arising out of the ownership, use, occupancy or maintenance of the Premises. The minimum limit of coverage of such policy shall be in the amount of not less than One Million Dollars (\$1,000,000.00) for injury or death of one person in any one accident or occurrence and in the amount of not less than One Million Dollars (\$1,000,000.00) for injury or death of more than one person in any one accident or occurrence, shall include an extended liability endorsement providing contractual liability coverage (which shall include coverage for Tenant's indemnification obligations in this Lease), and shall contain a severability of interest clause or a cross liability endorsement. Such insurance shall further insure Landlord and Tenant against liability for property damage of at least One Million Dollars (\$1,000,000.00). Landlord may from time to time require reasonable increases in any such limits if Landlord believes that additional coverage is necessary or desirable. The limit of any insurance shall not limit the liability of Tenant hereunder. No policy maintained by Tenant under this Paragraph 15(a) shall contain a deductible greater than two thousand five hundred dollars (\$2,500.00). No policy shall be cancelable or subject to reduction of coverage without thirty (30) days prior written notice to Landlord, and loss payable clauses shall be subject to Landlord's approval. Such policies of insurance shall be issued as primary policies and not contributing with or in excess of coverage that Landlord may carry, by an insurance company authorized to do business in the State of California for the issuance of such type of insurance coverage and rated A:XIII or better in Best's Key Rating Guide.

(a) PERSONAL PROPERTY INSURANCE. Tenant shall maintain in full force and effect on all of its personal property, furniture, furnishings, trade or business fixtures and equipment (collectively, "Tenant's Property") on the Premises, a policy or policies of fire and extended coverage insurance with standard coverage endorsement to the extent of the full replacement cost thereof. No such policy shall contain a deductible greater than two thousand five hundred dollars (\$2,500.00). During the term of this Lease the proceeds from any such policy or policies of insurance shall be used for the repair or replacement of the fixtures and equipment so insured. Landlord shall have no interest in the insurance upon Tenant's equipment and fixtures and will sign all documents reasonably necessary in connection with the settlement of any claim or loss by Tenant. Landlord will not carry insurance on Tenant's possessions.

(b) WORKER'S COMPENSATION INSURANCE; EMPLOYER'S LIABILITY INSURANCE. Tenant shall, at Tenant's expense, maintain in full force and effect worker's compensation

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insurance with not less than the minimum limits required by law, and employer's liability insurance with a minimum limit of coverage of One Million Dollars (\$1,000,000).

(c) EVIDENCE OF COVERAGE. Tenant shall deliver to Landlord certificates of insurance and true and complete copies of any and all endorsements required herein for all insurance required to be maintained by Tenant hereunder at the time of execution of this Lease by Tenant. Tenant shall, at least thirty (30) days prior to expiration of each policy, furnish Landlord with certificates of renewal or "binders" thereof. Each certificate shall expressly provide that such policies shall not be cancellable or otherwise subject to modification except after thirty (30) days prior written notice to Landlord and the other parties named as additional insureds as required in this Lease (except for cancellation for nonpayment of premium, in which event cancellation shall not take effect until at least ten (10) days notice has been given to Landlord).

16. INDEMNIFICATION

(a) OF LANDLORD. Tenant shall indemnify and hold harmless Landlord and Landlord's Investment Advisor and Agent, Allegis Realty Investors LLC, against and from any and all claims, liabilities, judgments, costs, demands, causes of action and expenses (including, without limitation, reasonable attorneys' fees) arising from (1) the use of the Premises, the Building or the Project by Tenant or Tenant's Agents, or from any activity done, permitted or suffered by Tenant or Tenant's Agents in or about the Premises, the Building or the Project, and (2) any act, neglect, fault, willful misconduct or omission of Tenant or

Tenant's Agents, or from any breach or default in the terms of this Lease by Tenant or Tenant's Agents, and (3) any action or proceeding brought on account of any matter in items (1) or (2). If any action or proceeding is brought against Landlord by reason of any such claim, upon notice from Landlord, Tenant shall defend the same at Tenant's expense by counsel reasonably satisfactory to Landlord. As a material part of the consideration to Landlord, Tenant hereby releases Landlord and Landlord's Agents from responsibility for, waives its entire claim of recovery for and assumes all risk of (i) damage to property or injury to persons in or about the Premises, the Building or the Project from any cause whatsoever (except that which is caused by the sole active gross negligence or willful misconduct of Landlord or Landlord's Agents or by the failure of Landlord to observe any of the terms and conditions of this Lease, if such failure has persisted for an unreasonable period of time after written notice of such failure), or (ii) loss resulting from business interruption or loss of income at the Premises. The obligations of Tenant under this Paragraph 16 shall survive any termination of this Lease.

(b) NO IMPAIRMENT OF INSURANCE. The foregoing indemnity shall not relieve any insurance carrier of its obligations under any policies required to be carried by either party pursuant to this Lease, to the extent that such policies cover the peril or occurrence that results in the claim that is subject to the foregoing indemnity.

17. SUBROGATION

Landlord and Tenant hereby mutually waive any claim against the other and its Agents for any loss or damage to any of their property located on or about the Premises, the Building or the Project that is caused by or results from perils covered by property insurance carried by the respective parties, to the extent of the proceeds of such insurance actually received with respect to such loss or damage, whether or not due to the negligence of the other party or its Agents. Because the foregoing waivers will preclude the assignment of any claim by way of subrogation to an insurance company or any other person, each party now agrees to immediately give to its insurer written notice of the terms of these mutual waivers and shall have their insurance policies endorsed to prevent the invalidation of the insurance coverage because of these waivers. Nothing in this Paragraph 17 shall relieve a Party of liability to the other for failure to carry insurance required by this Lease.

18. SIGNS

Tenant shall not place or permit to be placed in, upon, or about the Premises, the Building or the Project any exterior lights, decorations, balloons, flags, pennants, banners, advertisements or notices, or erect or

install any signs, windows or door lettering, placards, decorations, or advertising media of any type which can be viewed from the exterior the Premises without obtaining Landlord's prior written consent or without complying with Landlord's signage criteria specified on EXHIBIT E hereto, as the same may be modified by Landlord from time to time, and with all applicable Laws, and will not conduct, or permit to be conducted, any sale by auction on the Premises or otherwise on the Project. Tenant shall remove any sign, advertisement or notice placed on the Premises, the Building or the Project by Tenant upon the expiration of the Term or sooner termination of this Lease, and Tenant shall repair any damage or injury to the Premises, the Building or the Project caused thereby, all at Tenant's expense. If any signs are not removed, or necessary repairs not made, Landlord shall have the right to remove the signs and repair any damage or injury to the Premises, the Building or the Project at Tenant's sole cost and expense.

19. FREE FROM LIENS

Tenant shall keep the Premises, the Building and the Project free from any liens arising out of any work performed, material furnished or obligations incurred by or for Tenant. In the event that Tenant shall not, within ten (10) days following the imposition of any such lien, cause the lien to be released of record by payment or posting of a proper bond, Landlord shall have in addition to all other remedies provided herein and by law the right but not the obligation to cause same to be released by such means as it shall deem proper, including payment of the claim giving rise to such lien. All such sums paid by Landlord and all expenses incurred by it in connection therewith (including, without limitation, attorneys' fees) shall be payable to Landlord by Tenant upon demand.

Landlord shall have the right at all times to post and keep posted on the Premises any notices permitted or required by law or that Landlord shall deem proper for the protection of Landlord, the Premises, the Building and the Project, from mechanics' and materialmen's liens. Tenant shall give to Landlord at least five (5) business days' prior written notice of commencement of any repair or construction on the Premises.

20. ENTRY BY LANDLORD

Tenant shall permit Landlord and Landlord's Agents to enter into and upon the Premises at all reasonable times, upon reasonable notice (except in the case of an emergency, for which no notice shall be required), and subject to Tenant's reasonable security arrangements, for the purpose of inspecting the same or showing the Premises to prospective purchasers, lenders or tenants or to alter, improve, maintain and repair the Premises or the Building as required or

permitted of Landlord under the terms hereof, or for any other business purpose, without any rebate of Rent and without any liability to Tenant for any loss of occupation or quiet enjoyment of the Premises thereby occasioned (except for actual damages resulting from the sole active gross negligence or willful misconduct of Landlord); and Tenant shall permit Landlord to post notices of non-responsibility and ordinary "for sale" or "for lease" signs. No such entry shall be construed to be a forcible or unlawful entry into, or a detainer of, the Premises, or an eviction of Tenant from the Premises. Landlord may temporarily close entrances, doors, corridors, elevators or other facilities without liability to Tenant by reason of such closure in the case of an emergency and when Landlord otherwise deems such closure necessary.

21. DESTRUCTION AND DAMAGE

(a) If the Premises are damaged by fire or other perils covered by extended coverage insurance, Landlord shall, at Landlord's option:

(1) In the event of total destruction (which shall mean destruction or damage in excess of twenty-five percent (25%) of the full insurable value thereof) of the Premises, elect either to commence promptly to repair and restore the Premises and prosecute the same diligently to completion, in which event this Lease shall remain in full force and effect; or not to repair or restore the Premises, in which event this Lease shall terminate. Landlord shall give Tenant written notice of its intention within sixty (60) days after the date (the "Casualty Discovery Date") Landlord obtains actual knowledge of such destruction. If Landlord elects not to restore the Premises, this Lease shall be deemed to have terminated as of the date of such total destruction.

(2) In the event of a partial destruction (which shall mean destruction or damage to an extent not exceeding twenty-five percent (25%) of the full insurable value thereof) of the Premises for which Landlord will receive insurance proceeds sufficient to cover the cost to repair and restore such partial destruction and, if the damage thereto is such that the Premises may be substantially repaired or restored to its condition existing

immediately prior to such damage or destruction within one hundred eighty (180) days from the Casualty Discovery Date, Landlord shall commence and proceed diligently with the work of repair and restoration, in which event the Lease shall continue in full force and effect. If such repair and restoration requires longer than one hundred eighty (180) days or if the insurance proceeds therefor (plus any amounts Tenant may elect or is obligated to contribute) are not sufficient to cover the cost of such repair and restoration, Landlord may elect either to so repair and restore, in which event the Lease shall continue in full force and effect, or not to repair or restore, in which event the Lease shall

terminate. In either case, Landlord shall give written notice to Tenant of its intention within sixty (60) days after the Casualty Discovery Date. If Landlord elects not to restore the Premises, this Lease shall be deemed to have terminated as of the date of such partial destruction.

(3) Notwithstanding anything to the contrary contained in this Paragraph, in the event of damage to the Premises occurring during the last twelve (12) months of the Term, Landlord may elect to terminate this Lease by written notice of such election given to Tenant within thirty (30) days after the Casualty Discovery Date.

(b) If the Premises are damaged by any peril not covered by extended coverage insurance, and the cost to repair such damage exceeds any amount Tenant may agree to contribute, Landlord may elect either to commence promptly to repair and restore the Premises and prosecute the same diligently to completion, in which event this Lease shall remain in full force and effect; or not to repair or restore the Premises, in which event this Lease shall terminate. Landlord shall give Tenant written notice of its intention within sixty (60) days after the Casualty Discovery Date. If Landlord elects not to restore the Premises, this Lease shall be deemed to have terminated as of the date on which Tenant surrenders possession of the Premises to Landlord, except that if the damage to the Premises materially impairs Tenant's ability to continue its business operations in the Premises, then this Lease shall be deemed to have terminated as of the date such damage occurred.

(c) Notwithstanding anything to the contrary in this Paragraph 22, Landlord shall have the option to terminate this Lease, exercisable by notice to Tenant within sixty (60) days after the Casualty Discovery Date, in each of the following instances:

(1) If more than twenty-five percent (25%) of the full insurable value of the Building or the Project is damaged or destroyed, regardless of whether or not the Premises are destroyed.

(2) If the Building or the Project or any portion thereof is damaged or destroyed and the repair and restoration of such damage requires longer than one hundred eighty (180) days from the Casualty Discovery Date.

(3) If the Building or the Project or any portion thereof is damaged or destroyed and the insurance proceeds therefor are not sufficient to cover the costs of repair and restoration.

(4) If the Building or the Project or any portion thereof is destroyed during the last twelve (12) months of the Term.

(d) In the event of repair and restoration as herein provided, the monthly installments of Base Rent shall be abated proportionately in the ratio which Tenant's use of the Premises is impaired during the period of such repair or restoration, but only to the extent of rental abatement insurance proceeds received by Landlord; provided, however, that Tenant shall not be entitled to such abatement to the extent that such damage or destruction resulted from the acts or inaction of Tenant or Tenant's Agents. Except as expressly provided in the immediately preceding sentence with respect to abatement of Base Rent, Tenant shall have no claim against Landlord for, and hereby releases Landlord and Landlord's Agents from responsibility for and waives its entire claim of recovery for any cost, loss or expense suffered or incurred by Tenant as a result of any damage to or destruction of the Premises, the Building or the Project or the repair or restoration thereof, including, without limitation, any cost, loss or expense resulting from any loss of use of the whole or any part of the Premises, the Building or the Project and/or any inconvenience or annoyance occasioned by such damage, repair or restoration.

(e) If Landlord is obligated to or elects to repair or restore as herein provided, Landlord shall repair or restore only the initial tenant improvements, if any, constructed by Landlord in the Premises pursuant to the terms of this Lease, substantially to their condition existing immediately prior to the occurrence of the damage or destruction; and Tenant shall promptly repair and restore, at Tenant's expense, Tenant's Alterations which were not constructed by Landlord.

(f) Tenant hereby waives the provisions of California Civil Code Section 1932(2) and Section 1933(4) which permit termination of a lease upon destruction of the leased premises, and the provisions of any similar law now or hereinafter in effect, and the provisions of this Paragraph 22 shall govern exclusively in case of such destruction.

22. CONDEMNATION

(a) If twenty-five percent (25%) or more of either the Premises, the Building or the Project or the parking areas for the Building or the Project is taken for any public or quasi-public Purpose by any lawful governmental power or authority, by exercise of the right of appropriation, inverse condemnation, condemnation or eminent domain, or sold to prevent such taking (each such event being referred to as a "Condemnation"), Landlord may, at its option, terminate this Lease as of the date title vests in the condemning party. If twenty-five percent (25%) or more of the Premises is taken and if the Premises remaining after such Condemnation and any repairs by Landlord would be untenable

for the conduct of Tenant's business operations, Tenant shall have the right to terminate this Lease as of the date title vests in the condemning party. If either party elects to terminate this Lease as provided herein, such election shall be made by written notice to the other party given within thirty (30) days after the nature and extent of such Condemnation have been finally determined. If neither Landlord nor Tenant elects to terminate this Lease to the extent permitted above, Landlord shall promptly proceed to restore the Premises, to the extent of any Condemnation award received by Landlord, to substantially the same condition as existed prior to such Condemnation, allowing for the reasonable effects of such Condemnation, and a proportionate abatement shall be made to the Base Rent corresponding to the time during which, and to the portion of the floor area of the Premises (adjusted for any increase thereto resulting from any reconstruction) of which, Tenant is deprived on account of such Condemnation and restoration, as reasonably determined by Landlord. Except as expressly provided in the immediately preceding sentence with respect to abatement of Base Rent, Tenant shall have no claim against Landlord for, and hereby releases Landlord and Landlord's Agents from responsibility for and waives its entire claim of recovery for any cost, loss or expense suffered or incurred by Tenant as a result of any Condemnation or the repair or restoration of the Premises, the Building or the Project or the parking areas for the Building or the Project following such Condemnation, including, without limitation, any cost, loss or expense resulting from any loss of use of the whole or any part of the Premises, the Building, the Project or the parking areas and/or any inconvenience or annoyance occasioned by such Condemnation, repair or restoration. The provisions of California Code of Civil Procedure Section 1265.130, which allows either party to petition the Superior Court to terminate the Lease in the event of a partial taking of the Premises, the Building or the Project or the parking areas for the Building or the Project, and any other applicable law now or hereafter enacted, are hereby waived by Tenant.

(b) Landlord shall be entitled to any and all compensation, damages, income, rent, awards, or any interest therein whatsoever which may be paid or made in connection with any Condemnation, and Tenant shall have no claim against Landlord for the value of any unexpired term of this Lease or otherwise; provided, however, that Tenant shall be entitled to receive any award separately allocated by the condemning authority to Tenant for Tenant's relocation expenses or the value of Tenant's Property (specifically excluding fixtures, Alterations and other components of the Premises which under this Lease or by law are or at the expiration of the Term will become the property of Landlord), provided that such award does not reduce any award otherwise allocable or payable to Landlord.

23. ASSIGNMENT AND SUBLETTING

(a) Tenant shall not voluntarily or by operation of law, (1) mortgage, pledge, hypothecate or encumber this Lease or any interest herein, (2) assign or transfer this Lease or any interest herein, sublease the Premises or any part thereof, or any right or privilege appurtenant thereto, or allow any other person (the employees and invitees of Tenant excepted) to occupy or use the Premises, or any portion thereof, without first

obtaining the written consent of Landlord, which consent shall not be withheld unreasonably provided that (i) Tenant is not then in Default under this Lease nor is any event then occurring which with the giving of notice or the passage of time, or both, would constitute a Default hereunder, and (ii) Tenant has not previously assigned or transferred this Lease or any interest herein or subleased the Premises or any part thereof. When Tenant requests Landlord's consent to such assignment or subletting, it shall notify Landlord in writing of the name and address of the proposed assignee or subtenant and the nature and character of the business of the proposed assignee or subtenant and shall provide current and prior financial statements for the proposed assignee or subtenant prepared in accordance with generally accepted accounting principles. Tenant shall also provide Landlord with a copy of the proposed sublease or assignment agreement, including, all material terms and conditions thereof. Landlord shall have the option, to be exercised within thirty (30) days of receipt of the foregoing, to (1) terminate this Lease as of the commencement date stated in the proposed sublease or assignment, (2) sublease or take an assignment, as the case may be, from Tenant of the interest, or any portion thereof, in this Lease and/or the Premises that Tenant proposes to assign or sublease, on the same terms and conditions as stated in the proposed sublet or assignment agreement, (3) consent to the proposed assignment or sublease, or (4) refuse its consent to the proposed assignment or sublease, providing that such consent shall not be unreasonably withheld so long as Tenant is not then in Default under this Lease nor is any event then occurring which with the giving of notice or the passage of time, or both, would constitute a Default hereunder. In the event Landlord elects to terminate this Lease or sublease or take an assignment from Tenant of the interest, or portion thereof, in the Lease and/or the Premises that Tenant proposes to assign or sublease as provided in the foregoing clauses (1) and (2), respectively, then Landlord shall have the additional right to negotiate directly with Tenant's proposed assignee or subtenant and to enter into a direct lease or occupancy agreement with such party on such terms as shall be acceptable to Landlord in its sole and absolute discretion, and Tenant hereby waives any claims against Landlord related thereto, including, without limitation, any claims for any compensation or profit related to such lease or occupancy agreement.

(b) Without otherwise limiting the criteria upon which Landlord may withhold its consent, Landlord shall be entitled to consider all reasonable criteria including, but not limited to, the following: (1) whether or not the proposed subtenant or assignee is engaged in a business which, and the use of the Premises will be in a manner which, is in keeping with the then character and nature of all other tenancies in the Project, (2) whether the use to be made of the Premises by the proposed subtenant or assignee will conflict with any so-called "exclusive" use then in favor of any other tenant of the Building, or the Project, and whether such use would be prohibited by any other portion of this Lease, including, but not limited to, any rules and regulations then in

effect, or under applicable Laws, and whether such use imposes a greater load upon the Premises and the Building and Project services then imposed by Tenant, (3) the business reputation of the proposed individuals who will be managing and operating the business operations of the assignee or subtenant, and the long-term financial and competitive business prospects of

the proposed assignee or subtenant, and (4) the creditworthiness and financial stability of the proposed assignee or subtenant in light of the responsibilities involved. In any event, Landlord may withhold its consent to any assignment or sublease, if (i) the actual use proposed to be conducted in the Premises or portion thereof conflicts with the provisions of Paragraph 8(a) or (b) above or with any other lease which restricts the use to which any space in the Building or the Project may be put, or (ii) the proposed assignment or sublease requires alterations, improvements or additions to the Premises or portions thereof.

(c) If Landlord approves an assignment or subletting as herein provided, Tenant shall pay to Landlord, as Additional Rent, the difference, if any, between (1) the Base Rent plus Additional Rent allocable to that part of the Premises affected by such assignment or sublease pursuant to the provisions of this Lease, and (2) the rent and any additional rent payable by the assignee or sublessee to Tenant, less reasonable and customary market-based leasing commissions, if any, incurred by Tenant in connection with such assignment or sublease. The assignment or sublease agreement, as the case may be, after approval by Landlord, shall not be amended without Landlord's prior written consent, and shall contain a provision directing the assignee or subtenant to pay the rent and other sums due thereunder directly to Landlord upon receiving written notice from Landlord that Tenant is in default under this Lease with respect to the payment of Rent. In the event that, notwithstanding the giving of such notice, Tenant collects any rent or other sums from the assignee or subtenant, then Tenant shall hold such sums in trust for the benefit of Landlord and shall immediately forward the same to Landlord. Landlord's collection of such rent and other sums shall not constitute an acceptance by Landlord of attornment by such assignee or subtenant. A consent to one assignment, subletting, occupation or use shall not be deemed to be a consent to any other or subsequent assignment, subletting, occupation or use, and consent to any assignment or subletting shall in no way relieve Tenant of any liability under this Lease. Any assignment or subletting without Landlord's consent shall be void, and shall, at the option of Landlord, constitute a Default under this Lease.

(d) Notwithstanding any assignment or subletting, Tenant and any guarantor or surety of Tenant's obligations under this Lease shall at all times remain fully responsible and liable for the payment of the Rent and for compliance with all of Tenant's other obligations under this Lease (regardless of whether

Landlord's approval has been obtained for any such assignment or subletting).

(e) Tenant shall pay Landlord's reasonable fees (including, without limitation, the fees of Landlord's counsel), incurred in connection with Landlord's review and processing of documents regarding any proposed assignment or sublease.

(f) Notwithstanding anything in this Lease to the contrary, in the event Landlord consents to an assignment or subletting by Tenant in accordance with the terms of this Paragraph 24, Tenant's assignee or subtenant shall have no right to further assign this

Lease or any interest therein or thereunder or to further sublease all or any portion of the Premises. In furtherance of the foregoing, Tenant acknowledges and agrees on behalf of itself and any assignee or subtenant claiming under it (and any such assignee or subtenant by accepting such assignment or sublease shall be deemed to acknowledge and agree) that no sub-subleases or further assignments of this Lease shall be permitted at any time.

(g) Tenant acknowledges and agrees that the restrictions, conditions and limitations imposed by this Paragraph 24 on Tenant's ability to assign or transfer this Lease or any interest herein, to sublet the Premises or any part thereof, to transfer or assign any right or privilege appurtenant to the Premises, or to allow any other person to occupy or use the Premises or any portion thereof, are, for the purposes of California Civil Code Section 1951.4, as amended from time to time, and for all other purposes, reasonable at the time that the Lease was entered into, and shall be deemed to be reasonable at the time that Tenant seeks to assign or transfer this Lease or any interest herein, to sublet the Premises or any part thereof, to transfer or assign any right or privilege appurtenant to the Premises, or to allow any other person to occupy or use the Premises or any portion thereof.

24. TENANT'S DEFAULT

The occurrence of any one of the following events shall constitute an event of default on the part of Tenant ("Default"):

(a) The vacation or abandonment of the Premises by Tenant for a period of ten (10) consecutive days or any vacation or abandonment of the Premises by Tenant which would cause any insurance policy to be invalidated or otherwise lapse, or the failure of Tenant to continuously operate Tenant's business in the Premises, in each of the foregoing cases irrespective of whether or not Tenant is then in monetary default under this Lease. Tenant agrees to notice and service of notice as provided for in this Lease and waives any right to any

other or further notice or service of notice which Tenant may have under any statute or law now or hereafter in effect;

(b) Failure to pay any installment of Rent or any other monies due and payable hereunder, said failure continuing for a period of three (3) days after the same is due;

(c) A general assignment by Tenant or any guarantor or surety of Tenant's obligations hereunder (collectively, "Guarantor") for the benefit of creditors;

(d) The filing of a voluntary petition in bankruptcy by Tenant or any Guarantor, the filing by Tenant or any Guarantor of a voluntary petition for an arrangement, the filing by or against Tenant or any Guarantor of a petition, voluntary or involuntary, for reorganization, or the filing of an involuntary petition by the creditors of Tenant or any Guarantor, said involuntary petition remaining undischarged for a period of sixty (60) days;

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(e) Receivership, attachment, or other judicial seizure of substantially all of Tenant's assets on the Premises, such attachment or other seizure remaining undismissed or undischarged for a period of sixty (60) days after the levy thereof;

(f) Death or disability of Tenant or any Guarantor, if Tenant or such Guarantor is a natural person, or the failure by Tenant or any Guarantor to maintain its legal existence, if Tenant or such Guarantor is a corporation, partnership, limited liability company, trust or other legal entity;

(g) Failure of Tenant to execute and deliver to Landlord any estoppel certificate, subordination agreement, or lease amendment within the time periods and in the manner required by Paragraphs 30 or 31 or 42;

(h) An assignment or sublease, or attempted assignment or sublease, of this Lease or the Premises by Tenant contrary to the provision of Paragraph 24, unless such assignment or sublease is expressly conditioned upon Tenant having received Landlord's consent thereto;

(i) Failure of Tenant to restore the Security Deposit to the amount and within the time period provided in Paragraph 7 above;

(j) Failure in the performance of any of Tenant's covenants, agreements or obligations hereunder (except those failures specified as events of Default in subparagraphs (b), (l) or (m) above or any other subparagraphs of this Paragraph 25, which shall be governed by such other Paragraphs), which failure continues for ten (10) days after written notice thereof from Landlord to Tenant, provided

that, if Tenant has exercised reasonable diligence to cure such failure and such failure cannot be cured within such ten (10) day period despite reasonable diligence, Tenant shall not be in default under this subparagraph so long as Tenant thereafter diligently and continuously prosecutes the cure to completion and actually completes such cure within thirty (30) days after the giving of the aforesaid written notice;

(k) Chronic delinquency by Tenant in the payment of Rent, or any other periodic payments required to be paid by Tenant under this Lease. "Chronic delinquency" shall mean failure by Tenant to pay Rent, or any other payments required to be paid by Tenant under this Lease within three (3) days after written notice thereof for any three (3) months (consecutive or nonconsecutive) during any period of twelve (12) months. In the event of a Chronic Delinquency, in addition to Landlord's other remedies for Default provided in this Lease, at Landlord's option, Landlord shall have the right to require that Rent be paid by Tenant quarterly, in advance;

(l) Chronic overuse by Tenant or Tenant's Agents of the number of undesignated parking spaces set forth in the Basic Lease Information. "Chronic Overuse" shall mean use by Tenant or Tenant's Agents of a number of parking spaces greater than the number

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of parking spaces set forth in the Basic Lease Information more than three (3) times during the Term after written notice by Landlord;

(m) Any insurance required to be maintained by Tenant pursuant to this Lease shall be canceled or terminated or shall expire or be reduced or materially changed, except as permitted in this Lease; and

(n) Any failure by Tenant to discharge any lien or encumbrance placed on the Project or any part thereof in violation of this Lease within ten (10) days after the date such lien or encumbrance is filed or recorded against the Project or any part thereof.

Tenant agrees that any notice given by Landlord pursuant to Paragraph 25(j), (k) or (l) above shall satisfy the requirements for notice under California Code of Civil Procedure Section 1161, and Landlord shall not be required to give any additional notice in order to be entitled to commence an unlawful detainer proceeding.

25. LANDLORD'S REMEDIES

(a) TERMINATION. In the event of any Default by Tenant, then in addition to any other remedies available to Landlord at law or in equity and under this

Lease, Landlord shall have the immediate option to terminate this Lease and all rights of Tenant hereunder by giving written notice of such intention to terminate. In the event that Landlord shall elect to so terminate this Lease then Landlord may recover from Tenant:

(1) the worth at the time of award of any unpaid Rent and any other sums due and payable which have been earned at the time of such termination; plus

(2) the worth at the time of award of the amount by which the unpaid Rent and any other sums due and payable which would have been earned after termination until the time of award exceeds the amount of such rental loss Tenant proves could have been reasonably avoided; plus

(3) the worth at the time of award of the amount by which the unpaid Rent and any other sums due and payable for the balance of the term of this Lease after the time of award exceeds the amount of such rental loss that Tenant proves could be reasonably avoided; plus

(4) any other amount necessary to compensate Landlord for all the detriment proximately caused by Tenant's failure to perform its obligations under this Lease or which in the ordinary course would be likely to result therefrom, including, without limitation, (A) any costs or expenses incurred by Landlord (1) in retaking possession of the Premises; (2) in maintaining, repairing, preserving, restoring, replacing, cleaning, altering, remodeling or rehabilitating the Premises or any affected portions of the Building or the Project, including such actions undertaken in connection with the reletting or attempted reletting of the Premises to a new tenant or tenants; (3) for leasing

commissions, advertising costs and other expenses of reletting the Premises; or (4) in carrying the Premises, including, taxes, insurance premiums, utilities and security precautions; (B) any unearned brokerage commissions paid in connection with this Lease; (C) reimbursement of any previously waived or abated Base Rent or Additional Rent or any free rent or reduced rental rate granted hereunder; and (D) any concession made or paid by Landlord to the benefit of Tenant in consideration of this Lease including, but not limited to, any moving allowances, contributions, payments or loans by Landlord for tenant improvements or build-out allowances (including without limitation, any unamortized portion of the Tenant Improvement Allowance (such Tenant Improvement Allowance to be amortized over the Term in the manner reasonably determined by Landlord), if any, and any outstanding balance (principal and accrued interest) of the Tenant Improvement Loan, if any), or assumptions by Landlord of any of Tenant's previous lease obligations; plus

(5) such reasonable attorneys' fees incurred by Landlord as a result of a Default, and costs in the event suit is filled by Landlord to enforce such remedy; and plus

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

As used in subparagraphs (1) and (2) above, the "worth at the time of award" is computed by allowing, interest at an annual rate equal to twelve percent (12%) per annum or the maximum rate permitted by law, whichever is less. As used in subparagraph (3) above, the "worth at the time of award" is 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%). Tenant waives redemption or relief from forfeiture under California Code of Civil Procedure Sections 1174 and 1179, or under any other pertinent present or future Law, in the event Tenant is evicted or Landlord takes possession of the Premises by reason of any Default of Tenant hereunder.

(b) CONTINUATION OF LEASE. In the event of any Default by Tenant, then in addition to any other remedies available to Landlord at law or in equity and under this Lease, Landlord shall have the remedy described in California Civil Code Section 1951.4 (Landlord may continue this Lease in effect after Tenant's Default and abandonment and recover Rent as it becomes due, provided Tenant has the right to sublet or assign, subject only to reasonable limitations). In addition, Landlord shall not be liable in any way whatsoever for its failure or refusal to relet the Premises. For purposes of this Paragraph 26(b), the following, acts by Landlord will not constitute the termination of Tenant's right to possession of the Premises:

(1) Acts of maintenance or preservation or efforts to relet the Premises, including, but not limited to, alterations, remodeling, redecorating, repairs, replacements and/or painting as Landlord shall consider advisable for the purpose of reletting the Premises or any part thereof; or

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(2) The appointment of a receiver upon the initiative of Landlord to protect Landlord's interest under this Lease or in the Premises.

(c) RE-ENTRY. In the event of any Default by Tenant, Landlord shall also have the right, with or without terminating this Lease, in compliance with applicable law, to reenter the Premises and remove all persons and property from the Premises; such property may be removed and stored in a public warehouse or elsewhere at the cost of and for the account of Tenant.

(d) RELETTING. In the event of the abandonment of the Premises by Tenant

or in the event that Landlord shall elect to re-enter as provided in Paragraph 26(c) or shall take possession of the Premises pursuant to legal proceeding or pursuant to any notice provided by law, then if Landlord does not elect to terminate this Lease as provided in Paragraph 26(a), Landlord may from time to time, without terminating this Lease, relet the Premises or any part thereof for such term or terms and at such rental or rentals and upon such other terms and conditions as Landlord in its sole discretion may deem advisable with the right to make alterations and repairs to the Premises in Landlord's sole discretion. In the event that Landlord shall elect to so relet, then rentals received by Landlord from such reletting shall be applied in the following order: (1) to reasonable attorneys' fees incurred by Landlord as a result of a Default and costs in the event suit is filed by Landlord to enforce such remedies; (2) to the payment of any indebtedness other than Rent due hereunder from Tenant to Landlord; (3) to the payment of any costs of such reletting; (4) to the payment of the costs of any alterations and repairs to the Premises; (5) to the payment of Rent due and Unpaid hereunder; and (6) the residue, if any, shall be held by Landlord and applied in payment of future Rent and other sums payable by Tenant hereunder as the same may become due and payable hereunder. Should that portion of such rentals received from such reletting during any month, which is applied to the payment of Rent hereunder, be less than the Rent payable during the month by Tenant hereunder, then Tenant shall pay such deficiency to Landlord. Such deficiency shall be calculated and paid monthly. Tenant shall also pay to Landlord, as soon as ascertained, any costs and expenses incurred by Landlord in such reletting or in making such alterations and repairs not covered by the rentals received from such reletting.

(e) TERMINATION. No re-entry or taking of possession of the Premises by Landlord pursuant to this Paragraph 26 shall be construed as an election to terminate this Lease unless a written notice of such intention is given to Tenant or unless the termination thereof is decreed by a court of competent jurisdiction. Notwithstanding any reletting without termination by Landlord because of any Default by Tenant, Landlord may at any time after such reletting elect to terminate this Lease for any such Default.

(f) CUMULATIVE REMEDIES. The remedies herein provided are not exclusive and Landlord shall have any and all other remedies provided herein or by law or in equity.

(g) NO SURRENDER. No act or conduct of Landlord, whether consisting of the acceptance of the keys to the Premises, or otherwise, shall be deemed to be or constitute an acceptance of the surrender of the Premises by Tenant prior to the expiration of the Term, and such acceptance by Landlord of surrender by Tenant shall only flow from and must be evidenced by a written acknowledgment of acceptance of surrender signed by Landlord. The surrender of this Lease by

Tenant, voluntarily or otherwise, shall not work a merger unless Landlord elects in writing that such merger take place, but shall operate as an assignment to Landlord of any and all existing subleases, or Landlord may, at its option, elect in writing to treat such surrender as a merger terminating Tenant's estate under this Lease, and thereupon Landlord may terminate any or all such subleases by notifying the sublessee of its election so to do within five (5) days after such surrender.

26. LANDLORD'S RIGHT TO PERFORM TENANT'S OBLIGATIONS

(a) Without limiting the rights and remedies of Landlord contained in Paragraph 26 above, if Tenant shall be in Default in the performance of any of the terms, provisions, covenants or conditions to be performed or complied with by Tenant pursuant to this Lease, then Landlord may at Landlord's option, without any obligation to do so, and without notice to Tenant perform any such term, provision, covenant, or condition, or make any such payment and Landlord by reason of so doing shall not be liable or responsible for any loss or damage thereby sustained by Tenant or anyone holding under or through Tenant or any of Tenant's Agents.

(b) Without limiting the rights of Landlord under Paragraph 26(a) above, Landlord shall have the right at Landlord's option, without any obligation to do so, to perform any of Tenant's covenants or obligations under this Lease without notice to Tenant in the case of an emergency, as determined by Landlord in its sole and absolute judgment, or if Landlord otherwise determines in its sole discretion that such performance is necessary or desirable for the proper management and operation of the Building or the Project or for the preservation of the rights and interests or safety of other tenants of the Building or the Project.

(c) If Landlord performs any of Tenant's obligations hereunder in accordance with this Paragraph 26, the full amount of the cost and expense incurred or the payment so made or the amount of the loss so sustained shall immediately be owing by Tenant to Landlord, and Tenant shall promptly pay to Landlord upon demand, as Additional Rent, the full amount thereof with interest thereon from the date of payment by Landlord at the lower of (1) ten percent (10%) per annum, or (2) the highest rate permitted by applicable law.

27. ATTORNEY'S FEES

(a) If either party hereto fails to perform any of its obligations under this Lease or if any dispute arises between the parties hereto concerning the meaning or interpretation

of any provision of this Lease, then the defaulting, party or the party not prevailing in such dispute, as the case may be, shall pay any and all costs and expenses incurred by the other party on account of such default and/or in enforcing or establishing its rights hereunder, including, without limitation, court costs and reasonable attorneys' fees and disbursements. Any such attorneys' fees and other expenses incurred by either party in enforcing a judgment in its favor under this Lease shall be recoverable separately from and in addition to any other amount included in such judgment, and such attorneys' fees obligation is intended to be severable from the other provisions of this Lease and to survive and not be merged into any such judgment.

(b) Without limiting the generality of Paragraph 27(a) above, if Landlord utilizes the services of an attorney for the purpose of collecting any Rent due and unpaid by Tenant or in connection with any other breach of this Lease by Tenant, Tenant agrees to pay Landlord actual attorneys' fees as determined by Landlord for such services, regardless of the fact that no legal action may be commenced or filed by Landlord.

28. TAXES

Tenant shall be liable for and shall pay, prior to delinquency, all taxes levied against Tenant's Property. If any Alteration installed by Tenant pursuant to Paragraph 11 or any of Tenant's Property is assessed and taxed with the Project or Building, Tenant shall pay such taxes to Landlord within ten (10) days after delivery to Tenant of a statement therefor.

29. EFFECT OF CONVEYANCE

The term "Landlord" as used in this Lease means, from time to time, the then current owner of the Building or the Project containing the Premises, so that, in the event of any sale of the Building or the Project, Landlord shall be and hereby is entirely freed and relieved of all covenants and obligations of Landlord hereunder, and it shall be deemed and construed, without further agreement between the parties and the purchaser at any such sale, that the purchaser of the Building or the Project has assumed and agreed to carry out any and all covenants and obligations of Landlord hereunder.

30. TENANT'S ESTOPPEL CERTIFICATE

From time to time, upon written request of Landlord, Tenant shall execute, acknowledge and deliver to Landlord or its designee, a written certificate stating (a) the date this Lease was executed, the Commencement Date of the Term and the date the Term expires; (b) the date Tenant entered into occupancy of the Premises; (c) the amount of Rent and the date to which such Rent has been paid; (d) that this Lease is in full force and effect and has not been assigned, modified, supplemented or amended in any way (or, if assigned, modified, supplemented or amended, specifying the date and terms of any agreement so affecting this Lease); (e) that this Lease represents the entire agreement

between the parties with respect to Tenant's right to use and occupy the Premises (or specifying such other agreements, if any); (f) that all obligations under this Lease to be performed by Landlord as of the date of such certificate have been satisfied (or specifying those as to which Tenant claims that Landlord has yet to perform); (g) that all required contributions by Landlord to Tenant on account of Tenant's improvements have been received (or stating exceptions thereto); (h) that on such date there exist no defenses or offsets that Tenant has against the enforcement of this Lease by Landlord (or stating exceptions thereto); (i) that no Rent or other sum payable by Tenant hereunder has been paid more than one (1) month in advance (or stating exceptions thereto); (j) that security has been deposited with Landlord, stating the original amount thereof and any increases thereto; and (k) any other matters evidencing the status of this Lease that may be required either by a lender making a loan to Landlord to be secured by a deed of trust covering the Building or the Project or by a purchaser of the Building or the Project. Any such certificate delivered pursuant to this Paragraph 30 may be relied upon by a prospective purchaser of Landlord's interest or a mortgagee of Landlord's interest or assignee of any mortgage upon Landlord's interest in the Premises. If Tenant shall fail to provide such certificate within ten (10) days of receipt by Tenant of a written request by Landlord as herein provided, such failure shall, at Landlord's election, constitute a Default under this Lease, and Tenant shall be deemed to have given such certificate as above provided without modification and shall be deemed to have admitted the accuracy of any information supplied by Landlord to a prospective purchaser or mortgagee.

31. SUBORDINATION

Landlord shall have the right to cause this Lease to be and remain subject and subordinate to any and all mortgages, deeds of trust and ground leases, if any ("Encumbrances") that are now or may hereafter be executed covering the Premises, or any renewals, modifications, consolidations, replacements or extensions thereof, for the full amount of all advances made or to be made thereunder and without regard to the time or character of such advances, together with interest thereon and subject to all the terms and provisions thereof; provided only, that in the event of termination of any such ground lease or upon the foreclosure of any such mortgage or deed of trust, so long as Tenant is not in default, the holder thereof ("Holder") shall agree to recognize Tenant's rights under this Lease as long as Tenant shall pay the Rent and observe and perform all the provisions of this Lease to be observed and performed by Tenant. Within ten (10) days after Landlord's written request, Tenant shall execute, acknowledge and deliver any and all reasonable documents required by Landlord or the Holder to effectuate such subordination. If Tenant fails to do so, such failure shall constitute a Default by Tenant under this Lease. Notwithstanding anything to the contrary set forth in this Paragraph 31, Tenant hereby attorns and agrees to attorn to any person or entity purchasing or otherwise acquiring the Premises at any sale or other proceeding or pursuant to

32. ENVIRONMENTAL COVENANTS

(a) Prior to executing this Lease, Tenant has completed, executed and delivered to Landlord a Hazardous Materials Disclosure Certificate ("Initial Disclosure Certificate"), a fully completed copy of which is attached hereto as EXHIBIT F and incorporated herein by this reference. Tenant covenants, represents and warrants to Landlord that the information on the Initial Disclosure Certificate is true and correct and accurately describes the Hazardous Materials which will be manufactured, treated, used or stored on or about the Premises by Tenant or Tenant's Agents. Tenant shall, on each anniversary of the Commencement Date and at such other times as Tenant desires to manufacture, treat, use or store on or about the Premises new or additional Hazardous Materials which were not listed on the Initial Disclosure Certificate, complete, execute and deliver to Landlord an updated Disclosure Certificate (each, an "Updated Disclosure Certificate") describing Tenant's then current and proposed future uses of Hazardous Materials on or about the Premises, which Updated Disclosure Certificates shall be in the same format as that which is set forth in EXHIBIT F or in such updated format as Landlord may require from time to time. Tenant shall deliver an Updated Disclosure Certificate to Landlord not less than thirty (30) days prior to the date Tenant intends to commence the manufacture, treatment, use or storage of new or additional Hazardous Materials on or about the Premises, and Landlord shall have the right to approve or disapprove such new or additional Hazardous Materials in its sole and absolute discretion. Tenant shall make no use of Hazardous Materials on or about the Premises except as described in the Initial Disclosure Certificate or as otherwise approved by Landlord in writing in accordance with this Paragraph 32(a).

(b) As used in this Lease, the term "Hazardous Materials" shall mean and include any substance that is or contains (1) any "hazardous substance" as now or hereafter defined in ss. 101(14) of the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended ("CERCLA") (42 U.S.C. ss. 9601 et seq.) or any regulations promulgated under CERCLA; (2) any "hazardous waste" as now or hereafter defined in the Resource Conservation and Recovery Act, as amended ("RCRA") (42 U.S.C. ss. 6901 et seq.) or any regulations promulgated under RCRA; (3) any substance now or hereafter regulated by the Toxic Substances Control Act, as amended ("TSCA") (15 U.S.C. ss. 2601 et seq.) or any regulations promulgated under TSCA; (4) petroleum, petroleum by-products, gasoline, diesel fuel, or other petroleum hydrocarbons; (5) asbestos and asbestos-containing material, in any form, whether friable or non-friable; (6) polychlorinated biphenyls; (7) lead and lead-containing materials; or (8) any additional substance, material or waste (A) the presence of which on or about

the Premises (i) requires reporting, investigation or remediation under any Environmental Laws (as hereinafter defined), (ii) causes or threatens to cause a nuisance on the Premises or any adjacent area or property or poses or threatens to pose a hazard to the health or safety of persons on the Premises or any adjacent area or property, or (iii) which, if it emanated or migrated from the Premises, could constitute a trespass, or (B) which is now

or is hereafter classified or considered to be hazardous or toxic under any Environmental Laws.

(c) As used in this Lease, the term "Environmental Laws" shall mean and include (1) CERCLA, RCRA and TSCA; and (2) any other federal, state or local laws, ordinances, statutes, codes, rules, regulations, orders or decrees now or hereinafter in effect relating to (A) pollution, (B) the protection or regulation of human health, natural resources or the environment, (C) the treatment, storage or disposal of Hazardous Materials, or (D) the emission, discharge, release or threatened release of Hazardous Materials into the environment.

(d) Tenant agrees that during its use and occupancy of the Premises it will (1) not (A) permit Hazardous Materials to be present on or about the Premises except in a manner and quantity necessary for the ordinary performance of Tenant's business or (B) release, discharge or dispose of any Hazardous Materials on, in, at, under, or emanating from, the Premises, the Building or the Project; (2) comply with all Environmental Laws relating to the Premises and the use of Hazardous Materials on or about the Premises and not engage in or permit others to engage in any activity at the Premises in violation of any Environmental Laws; and (3) immediately notify Landlord of (A) any inquiry, test, investigation or enforcement proceeding by any governmental agency or authority against Tenant, Landlord or the Premises, Building or Project relating to any Hazardous Materials or under any Environmental Laws or (B) the occurrence of any event or existence of any condition that would cause a breach of any of the covenants set forth in this Paragraph 32.

(e) If Tenant's use of Hazardous Materials on or about the Premises results in a release, discharge or disposal of Hazardous Materials on, in, at, under, or emanating from, the Premises, the Building or the Project, Tenant agrees to investigate, clean up, remove or remediate such Hazardous Materials in full compliance with (1) the requirements of (A) all Environmental Laws and (B) any governmental agency or authority responsible for the enforcement of any Environmental Laws; and (2) any additional requirements of Landlord that are reasonably necessary to protect the value of the Premises, the Building or the Project.

(f) Upon reasonable notice to Tenant, Landlord may inspect the Premises and surrounding areas for the Purpose of determining whether there exists on or about the Premises any Hazardous Material or other condition or activity that is in violation of the requirements of this Lease or of any Environmental Laws. Such inspections may include, but are not limited to, entering the Premises or adjacent property with drill rigs or other machinery for the purpose of obtaining laboratory samples. Landlord shall not be limited in the number of such inspections during the Term of this Lease. In the event (1) such inspections reveal the presence of any such Hazardous Material or other condition or activity in violation of the requirements of this Lease or of any Environmental Laws, or (2) Tenant or its Agents contribute or knowingly consent to the presence of any

Hazardous Materials in, on, under, through or about the Premises, the Building or the Project or exacerbate the condition of or the conditions caused by any Hazardous Materials in, on, under, through or about the Premises, the Building or the Project, Tenant shall reimburse Landlord for the cost of such inspections within ten (10) days of receipt of a written statement therefor. Tenant will supply to Landlord such historical and operational information regarding the Premises and surrounding areas as may be reasonably requested to facilitate any such inspection and will make available for meetings appropriate personnel having knowledge of such matters. Tenant agrees to give Landlord at least sixty (60) days' prior notice of its intention to vacate the Premises so that Landlord will have an opportunity to perform such an inspection prior to such vacation. The right granted to Landlord herein to perform inspections shall not create a duty on Landlord's part to inspect the Premises, or liability on the part of Landlord for Tenant's use, storage, treatment or disposal of Hazardous Materials, it being understood that Tenant shall be solely responsible for all liability in connection therewith.

(g) Landlord shall have the right, but not the obligation, prior or subsequent to a Default, without in any way limiting Landlord's other rights and remedies under this Lease, to enter upon the Premises, or to take such other actions as it deems necessary or advisable, to investigate, clean up, remove or remediate any Hazardous Materials or contamination by Hazardous Materials present on, in, at, under, or emanating from, the Premises, the Building or the Project in violation of Tenant's obligations under this Lease or under any Environmental Laws. Notwithstanding any other provision of this Lease, Landlord shall also have the right, at its election, in its own name or as Tenant's agent, to negotiate, defend, approve and appeal, at Tenant's expense, any action taken or order issued by any governmental agency or authority with regard to any such Hazardous Materials or contamination by Hazardous Materials. All costs and expenses paid or incurred by Landlord in the exercise of the rights set forth in this Paragraph 32 shall be payable by Tenant upon demand.

(h) Tenant shall surrender the Premises to Landlord upon the expiration or earlier termination of this Lease free of debris, waste or Hazardous Materials placed on, about or near the Premises by Tenant or Tenant's Agents, and in a condition which complies with all Environmental Laws and any additional requirements of Landlord that are reasonably necessary to protect the value of the Premises, the Building or the Project, including, without limitation, the obtaining of any closure permits or other governmental permits or approvals related to Tenant's use of Hazardous Materials in or about the Premises. Tenant's obligations and liabilities pursuant to the provisions of this Paragraph 32 shall survive the expiration or earlier termination of this Lease. If it is determined by Landlord that the condition of all or any portion of the Premises, the Building, and/or the Project is not in compliance with the provisions of this Lease with respect to Hazardous Materials, including, without limitation, all Environmental Laws, at the expiration or earlier termination of this Lease, then at Landlord's sole option, Landlord may require Tenant to hold over possession of the Premises until Tenant can surrender the Premises to Landlord in the condition in which the Premises existed as of the Commencement Date and prior to

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LA PALMA/MODIFIED GROSS

the appearance of such Hazardous Materials except for normal wear and tear, including without limitation, the conduct or performance of any closures as required by any Environmental Laws. The burden of proof hereunder shall be upon Tenant. For purposes hereof, the term "normal wear and tear" shall not include any deterioration in the condition or diminution of the value of any portion of the Premises, the Building, and/or the Project in any manner whatsoever related to directly, or indirectly, Hazardous Materials. Any such holdover by Tenant will be with Landlord's consent, will not be terminable by Tenant in any event or circumstance and will otherwise be subject to the provisions of Paragraph 35 of this Lease.

(i) Tenant agrees to indemnify and hold harmless Landlord from and against any and all claims, losses (including, without limitation, loss in value of the Premises, the Building or the Project, liabilities and expenses (including attorney's fees)) sustained by Landlord attributable to (1) any Hazardous Materials placed on or about the Premises, the Building or the Project by Tenant or Tenant's Agents, or (2) Tenant's breach of any provision of this Paragraph 32.

(j) The provisions of this Paragraph 32 shall survive the expiration or earlier termination of this Lease.

33. NOTICES

All notices and demands which are required or may be permitted to be given

to either party by the other hereunder shall be in writing and shall be sent by United States mail, postage prepaid, certified, or by personal delivery or overnight courier, addressed to the addressee at Tenant's Address or Landlord's Address as specified in the Basic Lease Information, or to such other place as either party may from time to time designate in a notice to the other party given as provided herein. Copies of all notices and demands given to Landlord shall additionally be sent to Landlord's property manager at the address specified in the Basic Lease Information or at such other address as Landlord may specify in writing from time to time. Notice shall be deemed given upon actual receipt (or attempted delivery if delivery is refused), if personally delivered, or one (1) business day following deposit with a reputable overnight courier that provides a receipt, or on the third (3rd) day following deposit in the United States mail in the manner described above.

34. WAIVER

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

acceptance of such Rent. No delay or omission in the exercise of any right or remedy of Landlord in regard to any Default by Tenant shall impair such a right or remedy or be construed as a waiver. Any waiver by Landlord of any Default must be in writing and shall not be a waiver of any other Default concerning the same or any other provisions of this Lease.

35. HOLDING OVER

Any holding over after the expiration of the Term, without the express written consent of Landlord, shall constitute a Default and, without limiting Landlord's remedies provided in this Lease, such holding over shall be construed to be a tenancy at sufferance, at a rental rate of one hundred fifty percent (150%) of the Base Rent last due in this Lease, plus Additional Rent, and shall otherwise be on the terms and conditions herein specified, so far as applicable; provided, however, in no event shall any renewal or expansion option or other similar right or option contained in this Lease be deemed applicable to any such tenancy at sufferance. If the Premises are not surrendered at the end of the Term or sooner termination of this Lease, and in accordance with the provisions of Paragraphs 11 and 32(h), Tenant shall indemnify, defend and hold Landlord harmless from and against any and all loss or liability resulting from delay by

Tenant in so surrendering the Premises including, without limitation, any loss or liability resulting from any claim against Landlord made by any succeeding tenant or prospective tenant founded on or resulting from such delay and losses to Landlord due to lost opportunities to lease any portion of the Premises to any such succeeding tenant or prospective tenant, together with, in each case, actual attorneys' fees and costs.

36. SUCCESSORS AND ASSIGNS

The terms, covenants and conditions of this Lease shall, subject to the provision to assignment, apply to and bind the heirs, successors, executors, administrators and assigns of all of the parties hereto. If Tenant shall consist of more than one entity or person, the obligations of Tenant under this Lease shall be joint and several.

37. TIME

Time is of the essence of this Lease and each and every term, condition and provision herein.

38. BROKERS

Landlord and Tenant each represents and warrants to the other that neither it nor its officers or agents nor anyone acting on its behalf has dealt with any real estate broker except the Broker(s) specified in the Basic Lease Information in the negotiating or making of this Lease, and each party agrees to indemnify and hold harmless the other from any claim or claims, and costs and expenses, including attorneys' fees, incurred by

the indemnified party in conjunction with any such claim or claims of any other broker or brokers to a commission in connection with this Lease as a result of the actions of the indemnifying party.

39. LIMITATION OF LIABILITY

(a) Tenant agrees that, in the event of any default or breach by Landlord with respect to any of the terms of the Lease to be observed and performed by Landlord (1) Tenant shall look solely to the then-current landlord's interest in the Building for the satisfaction of Tenant's remedies for the collection of a judgment (or other judicial process) requiring the payment of money by Landlord; (2) no other property or assets of Landlord, its partners, shareholders, officers, directors or any successor in interest shall be subject to levy, execution or other enforcement procedure for the satisfaction of Tenant's remedies; (3) no personal liability shall at any time be asserted or enforceable

against Landlord's partners or successors in interest (except to the extent permitted in (1) above), or against Landlord's shareholders, officers or directors, or their respective partners, shareholders, officers, directors or successors in interest; and (4) no judgment will be taken against any partner, shareholder, officer or director of Landlord. The provisions of this section shall apply only to the Landlord and the parties herein described, and shall not be for the benefit of any insurer nor any other third party.

(b) Notwithstanding anything to the contrary contained in this Lease, and without limiting the terms of Paragraph 39 (a) above, Aetna Institutional Investors I Limited Partnership is entering into this Lease solely on behalf of Aetna Institutional Investors I Limited Partnership Separate Account _____, which is a separate account as defined in Section 3(17) of the Employee Retirement Income Security Act of 1974, as amended. Only the assets of Separate Account _____ shall be bound for the obligations of Separate Account _____ and Tenant shall have no resort to any other assets of Aetna Institutional Investors I Limited Partnership for the obligations of Landlord hereunder or under any other agreement, document or instrument executed and delivered in connection herewith. This provision shall survive the termination or expiration of this Lease.

40. FINANCIAL STATEMENTS

Within ten (10) days after Landlord's request, Tenant shall deliver to Landlord the then current financial statements of Tenant (including interim periods following the end of the last fiscal year for which annual statements are available), prepared or compiled by a certified public accountant, including a balance sheet and profit and loss statement for the most recent prior year, all prepared in accordance with generally accepted accounting principles consistently applied.

41. RULES AND REGULATIONS

Tenant agrees to comply with such reasonable rules and regulations as Landlord may adopt from time to time for the orderly and proper operation of the Building and the Project. Such rules may include but shall not be limited to the following: (a) restriction of employee parking to a limited, designated area or areas; and (b) regulation of the removal, storage and disposal of Tenant's refuse and other rubbish at the sole cost and expense of Tenant. The then current rules and regulations shall be binding upon Tenant upon delivery of a copy of them to Tenant. Landlord shall not be responsible to Tenant for the failure of any other person to observe and abide by any of said rules and regulations. Landlord's current rules and regulations are attached to this Lease as EXHIBIT D.

42. MORTGAGEE PROTECTION

(a) MODIFICATIONS FOR LENDER. If, in connection with obtaining financing for the Project or any portion thereof, Landlord's lender shall request reasonable modifications to this Lease as a condition to such financing, Tenant shall not unreasonably withhold, delay or defer its consent to such modifications, provided such modifications do not materially adversely affect Tenant's rights or increase Tenant's obligations under this Lease.

(b) RIGHTS TO CURE. Tenant agrees to give to any trust deed or mortgage holder ("Holder"), by registered mail, at the same time as it is given to Landlord, a copy of any notice of default given to Landlord, provided that prior to such notice Tenant has been notified, in writing, (by way of notice of assignment of rents and leases, or otherwise) of the address of such Holder. Tenant further agrees that if Landlord shall have failed to cure such default within the time provided for in this Lease, then the Holder shall have an additional twenty (20) days after expiration of such period, or after receipt of such notice from Tenant (if such notice to the Holder is required by this Paragraph 42(b)), whichever shall last occur within which to cure such default or if such default cannot be cured within that time, then such additional time as may be necessary if within such twenty (20) days, any Holder has commenced and is diligently pursuing the remedies necessary to cure such default (Including, but not limited to commencement of foreclosure proceedings, if necessary to effect such cure), in which event this Lease shall not be terminated.

43. ENTIRE AGREEMENT

This Lease, including the Exhibits and any Addenda attached hereto, which are hereby incorporated herein by this reference, contains the entire agreement of the parties hereto, and no representations, inducements, promises or agreements, oral or otherwise, between the parties, not embodied herein or therein, shall be of any force and effect.

44. INTEREST

Any installment of Rent and any other sum due from Tenant under this Lease which is not received by Landlord within ten (10) days from when the same is due shall bear interest from the date such payment was originally due under this Lease until paid at an annual rate equal to the maximum rate of interest permitted by law. Payment of such interest shall not excuse or cure any Default by Tenant. In addition, Tenant shall pay all costs and attorneys' fees incurred by Landlord in collection of such amounts.

45. CONSTRUCTION

This Lease shall be construed and interpreted in accordance with the laws of the State of California. The parties acknowledge and agree that no rule of construction to the effect that any ambiguities are to be resolved against the drafting party shall be employed in the interpretation of this Lease, including the Exhibits and any Addenda attached hereto. All captions in this Lease are for reference only and shall not be used in the interpretation of this Lease. Whenever required by the context of this Lease, the singular shall include the plural, the masculine shall include the feminine, and vice versa. If any provision of this Lease shall be determined to be illegal or unenforceable, such determination shall not affect any other provision of this Lease and all such other provisions shall remain in full force and effect.

46. REPRESENTATIONS AND WARRANTIES OF TENANT

Tenant hereby makes the following representations and warranties, each of which is material and being relied upon by Landlord, is true in all respects as of the date of this Lease, and shall survive the expiration or termination of the Lease.

(a) If Tenant is an entity, Tenant is duly organized, validly existing and in good standing under the laws of the state of its organization and the persons executing this Lease on behalf of Tenant have the full right and authority to execute this Lease on behalf of Tenant and to bind Tenant without the consent or approval of any other person or entity. Tenant has full power, capacity, authority and legal right to execute and deliver this Lease and to perform all of its obligations hereunder. This Lease is a legal, valid and binding obligation of Tenant, enforceable in accordance with its terms.

(b) Tenant has not (1) made a general assignment for the benefit of creditors, (2) filed any voluntary petition in bankruptcy or suffered the filing of an involuntary petition by any creditors, (3) suffered the appointment of a receiver to take possession of all or substantially all of its assets, (4) suffered the attachment or other judicial seizure of all or substantially all of its assets, (5) admitted in writing its inability to pay its debts as they come due, or (6) made an offer of settlement, extension or composition to its creditors generally.

47. SECURITY

(a) Tenant acknowledges and agrees that, while Landlord may engage security personnel to patrol the Building or the Project, Landlord is not

providing any security services with respect to the Premises, the Building or the Project and that Landlord shall not be liable to Tenant for, and Tenant waives any claim against Landlord with respect to, any loss by theft or any other damage suffered or incurred by Tenant in connection with any unauthorized entry into the Premises or any other breach of security with respect to the Premises, the Building or the Project.

(b) Tenant hereby agrees to the exercise by Landlord and Landlord's Agents, within their sole discretion, of such security measures as, but not limited to, the evacuation of the Premises, the Building or the Project for cause, suspected cause or for drill purposes, the denial of any access to the Premises, the Building or the Project and other similarly related actions that it deems necessary to prevent any threat of property damage or bodily injury. The exercise of such security measures by Landlord and Landlord's Agents, and the resulting interruption of service and cessation of Tenant's business, if any, shall not be deemed an eviction or disturbance of Tenant's use and possession of the Premises, or any part thereof, or render Landlord or Landlord's Agents liable to Tenant for any resulting damages or relieve Tenant from Tenant's obligations under this Lease.

48. JURY TRIAL WAIVER

Tenant hereby waives any right to trial by jury with respect to any action or proceeding (i) brought by Landlord, Tenant or any other party, relating to (A) this Lease and/or any understandings or prior dealings between the parties hereto, or (B) the Premises, the Building or the Project or any part thereof, or (ii) to which Landlord is a party. Tenant hereby agrees that this Lease constitutes a written consent to waiver of trial by jury pursuant to the provisions of California Code of Civil Procedure Section 631, and Tenant does hereby constitute and appoint Landlord its true and lawful attorney-in-fact, which appointment is coupled with an interest, and Tenant does hereby authorize and empower Landlord, in the name, place and stead of Tenant, to file this Lease with the clerk or judge of any court of competent jurisdiction as a statutory written consent to waiver of trial by jury.

Landlord and Tenant have executed and delivered this Lease as of the Lease specified in the Basic Lease Information.

LANDLORD:

TENANT:

AETNA INSTITUTIONAL INVESTORS
I LIMITED PARTNERSHIP

Interactive Technologies, Inc.,
a Minnesota Corporation

By: AETNA REAL ESTATE

PROPERTIES, INC.
Its General Partner

By: /s/ Sylvia Melikian

Sylvia Melikian
Vice President

By: /s/ Charles E. Briskey

Print Name: Charles E. Briskey
Its: Vice President, Operations

By: /s/ Charles A. Durant

Print Name: Charles A. Durant
Its: Vice President and General Counsel

LEASE AGREEMENT

This lease agreement, dated as of the 29th day of May, 1998, by and between the G.D Package Machinery, Inc. hereinafter referred to as "Landlord", and ITI Technologies, Inc. hereinafter referred to as "Tenant".

Witnesseth, that for and in consideration of the rent hereafter reserved, and the covenants contained herein, the parties hereby agree as follows:

1. LEASE PREMISES.

Landlord hereby leases to Tenant the premises situated in the County of Chesterfield, Virginia, known and described as follows:

A portion of that development known as Southport Corporate Center and located at 481 Southlake Boulevard. Said premises contain 2,725 square feet of office/warehouse space. Said premises are outlined in red on Exhibit "A" site plan, which is attached hereto and made a part hereof, hereinafter referred to as the "Premises".

2. TERM AND POSSESSION.

2.1 TERM. The term of this Lease shall be for thirty-six (36) months commencing on June 1, 1998 and ending on May 30, 2001 unless sooner terminated pursuant to any provision hereof.

3. RENT.

3.1 RENT. Tenant shall pay to Landlord as rent for the Premises the annual sum of (see Section 3.2 below) payable without deduction or demand, in equal monthly installments of (see Section 3.2 below) hereinafter referred to as the "basic monthly rental", in advance on the first day of each calendar month during the term hereof, the first installment payable on the execution of the Lease and the remaining installments payable on the first day of each month during the said term to and at the office of G.D Package Machinery Inc., 501 Southlake Blvd., Richmond, VA 23236, or at such other place as Landlord may from time to time designate to Tenant in writing. Rent checks shall be made payable to G.D Package Machinery Inc. Should the term of this lease commence on a day other than the first day of a calendar month, the parties agree that rental for the first and last month of the term shall be pro-rated and rent for the remaining months shall be due and

payable on the first of the month as provided above.

3.2 RENT SCHEDULE.

Landlord and Tenant agree that rent shall be paid as follows:

Period	Annual Rent	Monthly Rent
June 1, 1998 -- May 31, 1999	\$17,376	\$1,448
June 1, 1999 -- May 31, 2000	\$17,892	\$1,491
June 1, 2000 -- May 31, 2001	\$18,432	\$1,536

3.3 LATE CHARGE. Tenant hereby recognized and acknowledges that if rental or other payments are not received when due, Landlord will suffer damages and additional expense thereby and Tenant therefore agrees, in addition to such other remedies as are available to Landlord, to pay as additional rent (if not waived by Landlord) a late charge equal to five percent (5%) of any sum due hereunder which is not paid within seven (7) days of its due date. Furthermore, Landlord or Agent shall have the right to require that rental payments be made by certified or cashier's check.

4. SECURITY DEPOSIT.

Landlord acknowledges and agrees that the Tenant has previously deposited with Landlord One Thousand Three Hundred Twenty-five and no/100 dollars (\$1325.00) as security for the faithful performance of Tenant's obligations hereunder. The conditions under which Landlord will hold (and be obligated subsequently to return) the security are as follows:

- a. Full term of Lease has expired.
- b. Tenant has given Landlord at least sixty (60) days' written notice that it will vacate the Premises.
- c. Tenant does vacate the Premises at the termination of Lease and return keys thereto.
- d. Premises, inside and out, are left in "broom clean" condition and undamaged (except ordinary wear and tear).
- e. That there are no unpaid late charges, delinquent rent, court costs or attorneys fees or other monies owed by Tenant to Landlord.

If Tenant has complied with each of the above requirements, Landlord agrees that said security deposit will be returned. No interest shall be paid on the security deposit and Tenant shall not offset any payment due hereunder by the security or any part thereof. If Tenant violates any of the above requirements, Landlord may apply a part of, or all of the security deposit to cover the cost of expense incurred or deficiency existing in any monies due to the Landlord for failure to

comply with the provisions of this Lease and the matters as set forth in paragraph 4(a) through (e) and the Landlord shall have the right to proceed with any other legal or equitable remedies available to it.

5. USE.

The Premises shall be used and occupied for office/laboratory purposes as allowed in the Chesterfield County M-1 Zoning classification and for no other purpose.

6. UTILITIES.

Tenant agrees to pay when due all utility charges, except water and sewer, incurred in connection with its use and occupancy of the Premises, including, but not limited to, electricity, fuel, gas, and telephone (including equipment and installation charges) and to immediately transfer all utility accounts into its own name at the commencement of the term of this Lease (or whenever Tenant occupies the Premises, if such occupancy is prior to the commencement of the Lease).

7. ACCEPTANCE OF PREMISES.

Except as otherwise provided in this Lease, Tenant hereby accepts the Premises in their condition existing as of the Lease commencement date or the date that Tenant takes possession of the Premises, whichever is earlier, subject to all applicable zoning, municipal, county and state laws, ordinance and regulations governing and regulating the use of the Premises, and any easements, covenants, restrictions or other matters of record, and accepts this Lease subject thereto and to all matters disclosed thereby and by any exhibits attached hereto. Tenant acknowledges that neither Landlord nor Landlord's agent has made any representation or warranty as to the present or future of the Premises for the conduct of Tenant's business.

8. MAINTENANCE AND REPAIRS.

8.1 STRUCTURAL MAINTENANCE. Landlord shall be solely responsible for and shall maintain in good condition and repair the roof, foundation, exterior walls, as well as the underground pipes and conduits, and the sprinkler system (provided that the system serves more than Tenant's Premises): and Landlord shall make all repairs becoming necessary by reason of any structural defect in the Premises; provided however, that Landlord shall not be required to make any repairs necessitated by reason of any act or omission by Tenant, its employees, agents, licensees, invitees or anyone entering the Premises by force, but if Landlord does make any such repairs, Tenant agrees to promptly, upon

demand, reimburse Landlord for the full costs thereof. That no liability shall be imposed on the Landlord because of any injury or damage to personal property. or because of any interference with the services and facilities listed above, caused by accidents or repairs, riots, strikes, or any other reason beyond the control of the Landlord, and that the Landlord shall be under duty of restore any of such services and facilities or to make any of the repairs for which the Landlord is obligated, except after receipt of written notice from the Tenant of a need therefore, and there shall be a reasonable period of time within which the Landlord may make such repairs, in no event, however, shall Landlord fail to begin making repairs within 30 days after notice of diligently pursue such repairs to completion.

8.2 OTHER MAINTENANCE AND REPAIRS. Except as otherwise expressly provided in Paragraph 8.1 and except to the extent a guarantor or warrantor performs under Paragraph 7.1, Tenant shall, at its own expense, during the full term of this Lease, keep the Premises in good order and condition, and make all repairs and do all acts of maintenance becoming necessary in, upon or about the Premises, including specifically but not being limited to the, doors and door jambs, both inside and outside, loading docks, windows, and window casings and sills, both inside and outside, and plate or other glass windows and doors, and to make, a Tenant's expense, all repairs and to do all acts or maintenance becoming necessary during the term of the Lease and to replace all worn out and broken parts of, the plumbing and electrical systems and equipment. All plate glass and other glass which may be damaged or broken shall be replaced by Tenant with 24 hours of such damage.

9. ALTERATIONS.

9.1 INSTALLATION. Tenant shall not make any alterations, additions, modifications or improvements to the Premises without the prior written consent of the Landlord, which consent will not be unreasonably withheld, and with the consent of any mortgagee or underlying lessor to the extent required. If Tenant desires to make any such alterations, etc., plans for same shall first be submitted to and approved by Landlord and same shall be done by Tenant, at its own expense, and Tenant agrees that all such work shall be done in a good and workmanlike manner and in accordance with applicable laws and regulations, that the structural integrity of the building shall not be impaired, that no liens shall attached to the Premises by reason thereof, and that Tenant will secure all necessary permits pertaining to the aforementioned alterations.

9.2 OWNERSHIP AND REMOVAL. The alterations, additions, modifications and improvements referred to in Paragraph 9.1, and consented to in

writing by Landlord, shall become part of the real property as soon as they are affixed thereto; however, Landlord may, at Landlord's option, require that Tenant remove all or any part of said alterations prior to the expiration of the Lease Term. If Landlord so requires, Tenant agrees at its own expense, to remove same and to restore the Premises to their original condition, reasonable wear and tear excepted.

10. HAZARDOUS STORAGE.

Tenant agrees that it will not store gasoline or other explosive, flammable or toxic material in the Premises or do anything which may cause Landlord's insurance company to void the policy covering the Premises or to increase the premium thereon, and that Tenant will immediately conform to all rules and regulations from time to time established by the Landlord's insurance company or insurance rating bureau. See Lease Addendum.

11. INSURANCE.

11.1 FIRE INSURANCE. Tenant agrees, in addition to the provisions of Paragraph 10, that it will not do anything that will cause Landlord's insurance against loss by fire or other hazards, as well as public liability insurance, to be canceled or that will prevent Landlord from procuring same in acceptable companies and at standard rates. Tenant will further do everything reasonably possible and consistent with the conduct of Tenant's business, to enable Landlord to obtain the lowest possible rates for insurance on the Premises. If the cost to Landlord of obtaining insurance on the Premises (or the building in which the Premises are located) is increased above the first year due to the Tenant's occupancy thereof or any increase in rate or value of the Premises, Tenant agrees to pay, promptly upon demand, as additional rental, any such increase.

11.2 LIABILITY INSURANCE AND INDEMNIFICATION OF LANDLORD. Landlord and Agent shall not be liable to Tenant for and Tenant does hereby release Landlord and Agent and their respective agents and employees from liability for any injury, loss or damages to the Tenant or to any other person or property occurring upon the Premises or the approaches thereto or the parking facilities in or adjacent thereto from any cause other than Landlord's willful negligence or gross negligence. Tenant agrees to indemnify and save the Landlord harmless against and from any and all liability, damages, expenses, including reasonable attorneys' fees, except for damages caused by Landlord's willful negligence or gross negligence, that may be brought against it, for or on account of any damages, loss or injury to persons or property in or about the Premises during the term of this Lease, or during any occupancy by Tenant prior to the commencement of this Lease. Tenant further agrees to carry, at its own expense, at all times, during the term hereof, public liability insurance, in a form and with a company satisfactory to Landlord's bodily injury and property damage combined single limit policy of at least \$1,000,000 or in such greater amounts as Landlord

may from time to time reasonably require. Tenant shall also carry, at its own expense, plate glass insurance, where appropriate. All such policies shall name the Tenant, the Landlord and Agent, as parties insured and shall contain a provision that the same may not be canceled without giving the Landlord and the Agent at least thirty (30)

days' prior written notice. In addition, such policies or certificates evidencing that such policies are in effect, shall be delivered to Landlord and Agent at the commencement of the term hereof and renewals shall be delivered at least ten (10) days prior to the expiration or cancellation of any such policy. See Lease Addendum.

12. PERMITS -- COMPLIANCE WITH LAWS.

12.1 PERMITS.

12.2 COMPLIANCE WITH LAWS. Tenant shall thereafter promptly comply with all statutes, laws, ordinances, orders, rules, regulations and requirements of the Federal, State and local governments and of the Board of Fire Underwriters applicable to Tenant's use of the Premises, for the correction, prevention and abatement of nuisances or violations in, upon or connected with the Premises during the term of this Lease. Tenant shall not use nor permit the use of the Premises in any manner that will tend to create waste or a nuisance or, if there shall be more than one tenant in the building containing the Premises, shall tend to disturb such other tenants.

13. ASSIGNMENT AND SUBLETTING.

Tenant agrees that it will not transfer, assign or sublet the Premises, in whole or in part, without Landlord's prior written consent. Landlord agrees that it will not unreasonably withhold its consent, but if such consent is given, Tenant shall not be relieved from any liability under this Lease. Tenant further agrees that if it wishes to assign this Lease or sublet more than 75% of the Premises, it will first notify Landlord in writing, and the Landlord may, by written notice to Tenant within thirty (30) days after receipt of Tenant's notice, cancel this Lease, in which event Landlord shall release Tenant as to liability arising under this Lease after the date of cancellation. Consent by Landlord to any assignment or subletting shall not constitute a waiver of the necessity for such consent to any subsequent assignment or subletting. This prohibition against assigning or subletting shall be construed to include a prohibition against any assignment or subletting by operation of law.

14. SUBORDINATION.

Unless otherwise provided in the applicable instrument, Tenant accepts

this Lease, and the tenancy created hereunder, subject and subordinate to any underlying leases, mortgages, deeds or trust, leasehold mortgages or other security interests now or hereafter, on request execute any instruments that may be required by any mortgage, mortgagee, deed of trust, trustee, or underlying owner of Landlord hereunder to subordinate Tenant's interest hereunder to the lien of any such mortgages, deed or deeds of trust or underlying lease, and the failure of Tenant to execute any such instruments, leases or documents shall constitute a default hereunder.

15. ATTORNTMENT AND NON-DISTURBANCE.

Tenant agrees that upon any termination of Landlord's interest in the Premises, Tenant will, upon request, attorn to the person or organization then holding title to the reversion of the Premises (the "Successor") and to all subsequent Successors, and shall pay to the

Successor all rents and other monies required to be paid by the Tenant hereunder and perform all of the other terms, covenants, conditions and obligations contained in this Lease, provided, however, that Tenant shall not be so obligated to attorn unless, if Tenant shall so request in writing, such Successor will execute and deliver to Tenant an instrument wherein such Successor agrees that so long as Tenant performs all of the terms, covenants and conditions of this Lease, Tenant's possession of the Premises under the Premises under the provisions of this Lease shall not be disturbed by any such Successor.

16. PROPERTY LOSS OR DAMAGE.

16.1 Tenant hereby expressly agrees that Landlord and Agent shall not be responsible in any manner for and does hereby release Landlord and Agent and their respective agents and employees from any and all liability for any damage or injury directly and indirectly caused by (1) dampness or water, whether due to a break or leak in any part of the roof, heating, plumbing, or other Tenant system within the Premises, or in the building in which the Premises are located, no matter how caused; (2) theft; (3) fire or other casualty; (4) any other cause whatsoever unless caused by Landlord's negligence or willful misconduct and not otherwise covered by Tenant's insurance.

16.2 Subject to the provisions of paragraph 16.1, Landlord shall not be liable for damage or injury to person or property of Tenant or of any other person or business unless notice in writing of any defect (a) which Landlord has under the terms of this Lease the duty to correct and (b) which has caused such damage or injury, shall have been given in sufficient time before the occurrence of such damage or injury reasonably to have enabled Landlord to correct such defect, and even then only if such damage or injury is due to Landlord's negligence.

17. TENANT'S FAILURE TO PERFORM.

In the event that Tenant fails, after fifteen (15) days' written notice from Landlord, to keep the Premises in good state of condition and repair, or to commence and continuously make required repairs, or to do any act or make any payment or perform any term or covenant on Tenant's part required under this Lease or otherwise fails to comply herewith, Landlord may (at its option, but without being required to do so) immediately, or at any time thereafter and without notice perform the same for the account of Tenant (including entering the Premises at all reasonable hours to make repairs and do any act or make any payment which Tenant has failed to do), and if Landlord makes any expenditures, or incurs any obligations for the payment of money in connection therewith, including, but not limited to, attorney's fees in instituting prosecuting or defending any action or proceeding, such sums paid or obligations incurred, with interest at the rate of twelve percent (12%) per annum and costs, shall be deemed to be additional rent hereunder and shall be paid by Tenant to Landlord within five (5) days of rendition of any bill or statement to Tenant therefor. All rights given to Landlord in this section shall be addition to any other right or remedy of Landlord herein contained.

18. LANDLORD'S RIGHT TO ENTER AND SHOW PREMISES.

18.1 LANDLORD'S RIGHT TO INSPECT AND REPAIR. Tenant agrees to permit Landlord or Agent to enter the Premises at any reasonable time for the purpose of determining the condition of the Premises and making repairs thereto, as provided above in Paragraph 18.

18.2 LANDLORD'S RIGHT TO SHOW PREMISES. Tenant agrees that Landlord may show prospects through the premises during normal business hours and, within the last six months of the lease term, display a "For Lease" or "For Sale" sign on the Premises. Landlord must cooperate with Tenant and not detrimentally affect Tenant's business.

19. SURRENDER AT END OF TERM.

Except as otherwise provided in Paragraph 9.2, Tenant shall vacate the Premises at the expiration or other termination of this Lease and shall remove all goods and effects not belonging to Landlord and shall surrender possession of the Premises and all fixtures and systems thereof in good repair, reasonable wear and tear excepted.

20. EMINENT DOMAIN.

If the entire Premises shall be substantially taken (either temporarily or permanently) for public purposes, or in the event Landlord shall

convey or lease the Premises to any public authority under threat or condemnation or taking, the rent shall be adjusted to the date of such taking or leasing or conveyance, and this Lease shall thereupon terminate. If only a portion of the Premises shall be so taken, leased or condemned, and a result of such partial taking, Tenant is reasonably able to use the remainder of the Premises for the purposes intended hereunder, then this Lease shall not terminate, but, effective as of the date of such taking, leasing or condemnation, the rent hereunder shall be abated in any amount thereof proportionate to the area of the Premises so taken, leased or condemned. If, following such partial taking, Tenant shall not be reasonably able to use the remainder of the premises for the purposes intended hereunder, then this Lease shall terminate as if then entire Premises had been taken, leased or condemned. In the event of a taking, lease or condemnation as described in this Paragraph, whether or not there is a termination hereunder, Tenant shall have no claim against Landlord other than an adjustment of rent to the date of taking lease or condemnation, and Tenant shall not be entitled to any portion of any amount that may be awarded as damages or paid as a result or in settlement of such proceedings or threat.

21. DEFAULTS - REMEDIES.

The occurrence of any one or more of the following events shall constitute a material default and breach of this Lease of Tenant:

(a) The vacating or abandonment of the Premises by Tenant.

(b) The failure by Tenant to make any payment of rent or any other payment required to be made by Tenant hereunder, as and when due. Tenant shall be entitled to one written

notice of late payment from Landlord per year before such an event shall constitute a default, provided Tenant makes payment within 10 days after receipt of said notice.

(c) The failure by Tenant to observe or perform any of the covenants, conditions or provisions of this Lease to be observed or performed by Tenant other than described in Paragraph (b) hereinabove, where such failure shall continue for a period of five (5) days after written notice thereof from Landlord to Tenant; provided, however, that if the nature of the Tenant's default is such that more than five (5) days are reasonably required for its cure, then Tenant shall not be deemed to be default if Tenant commences such cure within said five (5) day period and thereafter, diligently prosecutes such cure to completion.

(d) The making by Tenant of any general assignment or general arrangement for the benefit of creditors, filing by or against Tenant under any law relating to bankruptcy (unless in the case of a petition

filed against Tenant, the same is dismissed within sixty (60) days, the appointment of a Trustee or receiver to take possession of substantially all of the Tenant's assets located in the Premises or the Tenant's interest in this Lease where possession is not restored to Tenant within thirty (30) days or the attachment, execution of other judicial seizure of substantially all Tenant's assets located at the premises or Tenant's interest in this Lease, where such seizure is not discharged within thirty (30) days.

In the event of such material default or breach by Tenant, Landlord may at any time hereunder, with or without notice or demand, without limiting Landlord in the exercise of any other right or remedy which Landlord may have hereunder or pursuant to applicable law by reason of such default or breach, proceed in the following manner:

Notwithstanding that Landlord prior to such breach or default shall have received rent or any payment, however designated, for the use of the Premises from or on behalf of Tenant or from any other person and regardless of and notwithstanding the fact that Landlord has or may have some other remedy under this Lease or by virtue hereof or by law or in equity, Landlord may immediately or at any time after any of such breach or default give to Tenant a notice of termination of this Lease, and, upon the giving of such notice, this Lease and the term and estate hereby granted shall expire and terminate upon the day so specified in such notice as fully and completely and with the same force and effect as if the day so specified were the date hereinbefore fixed for the normal expiration of the term of this Lease and all rights of Tenant under this Lease shall expire and terminate, but Tenant shall remain liable for damages as hereinafter provided.

Upon any such termination of this Lease, Tenant shall peaceably quit and surrender the Premises to Landlord, and Landlord may, without further notice, enter upon, re-enter, possess and repossess itself thereof, by force, summary proceeding, ejectment, unlawful detainer, or otherwise, and may dispossess and remove Tenant and all other persons and property from the Premises, and may have, hold and enjoy the Premises and the right to receive all rental and other income and other income of and from the same. No re-entry by Landlord shall be deemed an acceptance of a surrender of this Lease.

It is covenanted and agreed by Tenant that in the event of the termination of this Lease or of re-entry by Landlord, under any provisions of this Section or pursuant to law by reason of default hereunder on the part of Tenant, Tenant will pay to Landlord, as

damages, at the election of Landlord, sums equal to the basic rental, additional rental and any other sums which would have been payable by Tenant had this Lease not so terminated, payable upon the days

specified herein following such termination or such re-entry and until the date hereinabove set for the normal expiration of the full term hereby granted, provided, however, that if Landlord shall re-let the Premises during said period (it being understood that Landlord has no obligation to do so), Landlord shall credit Tenant with the net rents, if any, received by Landlord from such re-letting, the expenses incurred or paid by Landlord in terminating this Lease or of re-entering the Premises and of securing possession thereof, as well as the expenses of re-letting, including altering and preparing the Premises for new tenants, brokers' commissions and all other expenses chargeable against the Premises and the rental therefrom; but in no event shall Tenant be entitled to receive any excess of such net rents over the sums otherwise payable by Tenant to Landlord hereunder.

Suit or suits for the recovery of such damages, or any installments thereof, may be brought by Landlord from time to time at its election, and nothing contained herein shall be deemed to require Landlord to postpone suit until the date when the term of this Lease would have expired if it had not been terminated under the provisions of this paragraph, or under any provisions of law, or had Landlord not re-entered the Premises. Landlord shall also be entitled to collect from Tenant any reasonable attorney's fees arising out of Tenant's default hereunder. Landlord shall also be entitled to such other remedies as may be available at law or in equity in the event of default by Tenant hereunder.

Tenant, for Tenant, and on behalf of any and all persons claiming by, through or under Tenant, including creditors of all kind, does hereby waive and surrender all right and privilege which they or any of them might have under or by reason of any present or future law to redeem the Premises or to have a continuance of this Lease for the term hereby demised after being dispossessed or ejected therefrom by process of law or under the terms of this Lease or after the termination of this Lease as herein provided.

22. SEVERAL LIABILITY.

If the Tenant shall be one or more individuals, corporations or other entities, whether or not operating as a partnership or joint venture, then each such individual, corporation, entity, joint venture or partner shall be deemed to be both jointly and severally liable for the payment of the entire rent and other payments specified herein and all other duties and obligations of Tenant hereunder.

23. ESTOPPEL CERTIFICATES.

Tenant agrees at any time and from time to time upon five (5) days' prior notice by Landlord to execute, acknowledge and deliver to Landlord a statement in writing certifying that this Lease is unmodified and in full force and effect (or if there have been modifications, that the same is in full force and effect as modified

and stating the modifications) and the dates to which the rent and other charges have been paid in advance, if any, and stating whether or not, to the best knowledge of the signer of such certificate, Landlord is in default in performance of any covenant, agreement or condition contained in this Lease and, if so, specifying each such default of which the signer may

have knowledge, and such other matters as Landlord may request, it being intended that any such statement hereunder may be relied upon by any third party not a party to this Lease.

24. NOTICES.

Any notices required to be served in accordance with the terms of this Lease shall be in writing and served by registered or certified mail, or delivered in person and duly acknowledged, as follows:

To Tenant: ITI Technologies, Inc.
Attn: General Counsel
2266 Second Street North
North St. Paul, Minnesota 55109

To Landlord: G.D. Package Machinery Inc.
501 Southlake Boulevard
Richmond, Virginia 23226

Either party may at any time designate by written notice to the other a change in the above addresses for addressees. All notices, demands and requests which shall be served by registered or certified mail in the manner aforesaid shall be deemed sufficiently served or given for all purposes hereunder at the time such notice, demand or request shall be mailed by United States registered or certified mail as aforesaid in any Post Office or Branch Post Office regularly maintained by the United States Government.

25. SEPARABILITY.

If any term or provision of this Lease or the application thereof to any person or circumstances shall, to any extent, be invalid or unenforceable, the remainder of this Lease or the application of such term or provision to persons or circumstances other than those as to which it is held invalid or unenforceable, shall not be affected thereby and each term and provision of the Lease shall be valid and enforceable to the fullest extent permitted by law.

26. CAPTIONS.

All headings in this Lease are intended for convenience of reference

only and are not to be deemed or taken as a summary of the provisions to which they pertain or as a construction thereof.

27. SUCCESSORS AND ASSIGNS.

Except as otherwise provided, the covenants, conditions and agreements contained in the Lease shall bind and inure to the benefit of Landlord and Tenant, and their respective heirs, distributees, executors, administrators, successors and assigns.

28. GOVERNING LAW.

This Lease was made in the state of Virginia and shall be governed by and construed in all respects in accordance with the laws of the State of Virginia.

29. INCORPORATION OF PRIOR AGREEMENTS.

This Lease contains all agreements of the parties with respect to any matters contained herein. No prior agreement or understanding pertaining to any such matter shall be affected. This Lease may be modified only in writing and signed by the parties in interest at the time of the modification.

30. CUMULATIVE REMEDY.

No remedy or election hereunder shall be deemed exclusive but shall, wherever possible, be cumulative with all other remedies at law or in equity.

31. ATTORNEY'S FEES.

If Landlord or Agent or Tenant brings an action to enforce the terms hereof or declare rights hereunder, and prevails in any such action, the prevailing party shall be entitled to reasonable attorneys' fees from the non-prevailing parties.

32. AUCTIONS.

Tenant shall not conduct, nor permit to be conducted, either voluntarily or involuntarily, any auction upon the Premises without first having obtained Landlord's prior written consent. Notwithstanding anything to the contrary in this lease, Landlord shall not be obligated to exercise any standard of reasonableness in determining whether to grant such consent.

33. RECORDING.

Either Landlord or Tenant shall, upon request of the other, execute, acknowledge and deliver to the other a "short form" memorandum of this lease suitable for recording purposes.

34. EASEMENTS.

Landlord reserves to itself the right, from time to time to grant such easements, rights and dedications that Landlord deems necessary or desirable, and to cause the recordation of Subdivision Maps and restrictions, so long as such easements, rights, dedications, Maps and restrictions do not unreasonably interfere with the permitted use of the Premises by Tenant. Tenant shall sign any of the aforementioned documents upon request of Landlord and failure to do so constitutes a material breach of the Lease.

35. AUTHORITY.

If Tenant is a corporation, trust or general or limited partnership, each individual executing this Lease on behalf of such entity represents and warrants that he or she is duly authorized to execute and deliver this Lease on behalf of said entity. If Tenant is a corporation, trust or partnership, Tenant shall, within thirty (30) days after execution of the Lease, deliver to Landlord evidence of such authority satisfactory to Landlord.

36. MISCELLANEOUS.

- (a) As used in this Lease, and where the context requires: (1) the masculine shall be deemed to include the feminine and neuter and vice-versa; and (2) the singular shall be deemed to include the plural and vice-versa.
- (b) Tenant covenants and agrees that it shall not inscribe, affix, or otherwise display signs, advertisements or notices in, on, upon or behind any windows or on any door, partition or other part of the interior or exterior of the building without the prior written consent of the Landlord, which consent shall be withheld at Landlord's sole discretion. If such consent be given by Landlord, or a company approved by Landlord, but the cost of same shall be charged to and be paid by Tenant, and Tenant agrees to pay the same promptly, on demand.
- (c) Tenant covenants and agrees that it shall not attach or place awnings, antennas or other projections to the outside walls or any exterior portion of the building. No curtains, blinds, shades or otherwise shall be attached to or hung in, or used in connection with any window or door of the Premises, without

the prior written consent of Landlord.

- (d) Tenant further covenants and agrees that it shall not pile or place or permit to be placed any goods on the sidewalks or parking lots in the front, rear or sides of the building, or to block said sidewalks, parking lots and loading areas and not to do anything that directly or indirectly will take any of the rights or ingress or egress or of light from any other tenant of the Landlord.
- (e) Tenant waives statutory notice to quit prior to commencement of an action for summary possession for nonpayment of rent.
- (f) Except as otherwise expressly provided, Landlord and Agent shall not be deemed to have waived any of the provisions hereof unless the waiver be in writing and signed by the party against whom waiver is sought to be enforced.

37. ACKNOWLEDGMENT.

Landlord and Tenant agree that any previous Lease Agreement previously entered into and executed between these two parties on the above written premise shall be null and void, and that this Lease Agreement shall supersede any such previously executed Lease Agreement between these two parties.

Landlord and Tenant have carefully read and reviewed this Lease and each term and provision contained herein and, by execution of the Lease, show their informed and voluntary consent thereto. The parties hereby agree that, at the time this Lease is executed, the terms of this Lease are commercially reasonable and effectuate the intent and purpose of Landlord and Tenant with respect to the Premises. The Parties shall rely solely upon the advice of their own legal counsel as to the legal and tax consequences of the Lease.

In witness whereof, Landlord and Tenant have respectively signed and sealed this Lease of the day and year first above written.

WITNESS

LANDLORD: G.D. PACKAGE MACHINERY INC.
AT VIRGINIA CORPORATION

/s/ Janet G. Workman

/s/ illegible

BY:

WITNESS

TENANT: ITI TECHNOLOGIES, INC.

/s/ illegible

/s/ illegible

CONSTRUCTION AGREEMENT BETWEEN
GENERAL CONTRACTOR AND OWNER
DESIGN BUILD

THIS AGREEMENT, is made and entered into this 28th day of October, 1998 by and between Noah's Construction, Inc., a ("Contractor") and Caddx Controls, Inc., a ("Owner").

RECITALS:

WHEREAS, Owner has title or an agreement to acquire title to certain real property as described in Exhibit A ("Property");

WHEREAS, Owner desires that certain improvements be made on said real property, the scope and purposes as generally outlined in the specifications and plan as described in Exhibit B ("Project");

WHEREAS, Contractor desires to provide certain architectural, engineering and construction services to complete Project for Owner and shall complete detailed specifications and plans, to be set forth in Exhibit C; and

WHEREAS, Contractor and Owner desire to set forth in writing the term and conditions of their Agreement and intend to be legally bound by their Agreement.

NOW, THEREFORE, for and in consideration of the above premises, and of the following terms, conditions and mutual covenants of Contractor and Owner as hereinafter stated, IT IS HEREBY AGREED:

SECTION 1

OWNER'S OBLIGATIONS

1.01 Project. Owner shall provide Property for Project. Owner shall furnish at Owner's expense certified surveys describing the physical characteristics, soil reports, legal restrictions, utility locations and legal description; and an ALTA title policy or other title report acceptable to Contractor. Contractor shall be entitled to rely upon the accuracy and the completeness of such information furnished by Owner.

1.02 Other Requirements. Owner shall furnish at Owner's expense all necessary approvals; easements; assessments; expenses; building, use or occupancy and other governmental permits and licenses required for the construction; use or occupancy of permanent structures of Project; any bonds that may be required; and any legal services that may be required to obtain such

items.

1.03 Owner's Participation. Owner shall timely furnish Contractor complete information regarding Owner's requirements for Project. Owner shall designate in writing a representative who shall have authority to approve Change Orders and to furnish information on a timely basis. Owner shall promptly give notice to Contractor of any known fault or defect in Project or nonconformance with Project requirements.

1.04 Funding. Prior to Contractor commencing construction and at any subsequent time requested by Contractor, Owner shall furnish evidence acceptable to Contractor that sufficient funds are available and committed for the entire Cost of Project as set forth in Section 4. If such evidence is not furnished by Contractor, Section 8.02 shall apply.

1.05 Safety. Owner shall require and cause all of Owner's tenants and all contractors separately hired by Owner to abide by and fully adhere to all applicable federal, state and local safety laws and regulations and to comply with Contractor's request for the elimination or abatement of safety hazards. Owner shall indemnify and hold Contractor harmless from all claims and damages arising from safety hazards caused by Owner's tenants and by separate contractors employed by Owner. Owner shall be responsible for the elimination or abatement of safety hazards created at Project by other persons employed by Owner as separate contractors or by Owner's tenants.

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Owner shall cause such separate contractors and such tenants to coordinate and cooperate with Contractor in all other respects of construction.

1.06 Subcontractors. Owner shall not have a contractual relationship with Contractor's subcontractors and Owner shall communicate with such subcontractors through Contractor.

SECTION 2

CONTRACTOR'S OBLIGATIONS

2.01 Design and Engineering. Based upon Owner's requirements, Contractor shall perform the necessary design and engineering and shall prepare detailed construction drawings and specifications to be set forth in Exhibit C (to be signed by Owner and Contractor). Construction of Project shall be in accordance with these drawings and specifications and with any subsequent drawings and specifications as approved in writing by Owner and Contractor. The drawings and specifications shall remain the property of Contractor and are not to be used by Owner for other projects without the written consent of Contractor.

2.02 Construction. Contractor shall be responsible for the construction of Project and shall provide all supervision, labor, materials, tools, machinery, equipment and other items necessary for the completion of Project. Contractor shall use Contractor's best efforts to complete construction at the earliest possible time and shall at all times furnish sufficient materials and labor to assure an efficient completion of Project. Contractor is experienced and qualified to perform the work provided for herein and shall finance its own operations hereunder. Contractor shall operate as an independent contractor and not as an agent of Owner.

2.03 Completion Date. The work to be performed under this Agreement shall be substantially completed on or before the 1st day of June 1999 (Completion Date) as set forth in Paragraph 5.01, subject however, to delays beyond the Contractor's control. In the event the work to be performed under this Agreement shall not be substantially completed by the Completion Date, then there shall be a penalty of -0-.

2.04 Accounting. Contractor shall keep detailed records necessary for financial accounting of Project. Owner shall have access to Contractor's records, drawings, receipts and similar data relating to Project. Contractor shall specifically itemize all changes in Cost of Project and all Change Orders. Contractor shall maintain all records for a period of three years after Final Payment or longer where required by law.

2.05 Safety. Contractor shall take precautions for the safety of Contractor's employees and shall comply with applicable provisions of federal, state and local safety laws to prevent accidents or injury to persons on Project.

2.06 Subcontracts. All construction that Contractor does not perform shall be performed by subcontractors. The term "Subcontractor" shall not include any separate contractor employed by Owner or such separate contractor's subcontractors. Contractor shall be responsible for the management of subcontractors in the performance of their work. Contractor shall cause all subcontractors to indemnify and hold harmless Owner and Contractor from all claims for bodily injury and property damage that may arise, other than property damage required to be insured by Owner as set forth in Section 7.02.

2.07 Clean Conditions. Contractor shall maintain Project free from the accumulation of construction waste and rubbish. Upon completion of Project, Contractor shall deliver Project in a "clean" condition, free from all trash, rubbish, debris, Contractor's tools, construction equipment and machinery, surplus materials and inventory.

2.08 Warranties. Contractor warrants that all materials and equipment furnished shall be new, unless otherwise specified, and that all construction shall be of good quality, free from improper workmanship and defective materials and in conformance with the drawings and specifications. Contractor warrants that title to all work, materials and equipment shall pass to Owner upon delivery to Owner free and clear of all liens, claims, security interests or

Contractor shall correct all work performed by Contractor which proves to be defective in material and workmanship within a period of one year from the date of completion. Upon written notice of such defects, Contractor shall, at Contractor's option, either make necessary repairs or request Owner to make such repairs at Contractor's expense. Contractor will secure required certificates of inspection, testing or approval and any and all express warranties from manufacturers, suppliers and subcontractors, and deliver same to Owner.

2.09 Manufactured Equipment. Contractor shall guarantee manufactured equipment for ninety (90) days after initial use. Contractor shall collect all warranties and equipment manuals and deliver same to Owner. Contractor shall assist Owner's maintenance personnel with the testing and initial start up of such systems and equipment.

SECTION 3

MUTUAL REPRESENTATIONS

3.01 Litigation. Contractor and Owner hereby warrant and represent that neither is a party to or threatened with any litigation proceeding or controversy before any Court or administrative agency nor in default with respect to any judgment, order, writ, injunction, decree, rule, or regulation before any Court or administrative agency which might result in any adverse effect on representations, statements and conditions set forth in this Agreement.

3.02 Conflicts. The execution of this Agreement by Contractor and Owner will not violate or conflict with or result in a breach of or constitute a default under any agreement or instrument which they may be bound. No consent of any third party not a party to this Agreement is required.

3.03 Accuracy of Information. Contractor and Owner hereby warrant and represent that this Agreement does not contain any false statements and that this Agreement does not omit any material facts.

3.04 Authorization. Contractor and Owner have the requisite power and authority for execution of this Agreement.

3.05 Legal Responsibilities. Contractor and Owner shall comply, abide by and fully adhere with all applicable federal, state, local and municipal laws, regulations and ordinances applicable to any responsibilities of Contractor and Owner hereunder.

SECTION 4

LUMP SUM BID

4.01 Lump Sum Bid. Owner shall pay Contractor for the cost of Project as defined in Section 4.02 ("Cost of Project"). Owner shall pay Contractor compensation for services a Lump Sum Price of \$1,178,165.00.

4.02 Cost of Project. Cost of Project shall include:

- (a) Architectural, engineering and consulting fees incurred in design and construction of Project;
 - (b) Wages for Contractor's employees under (1) applicable collective bargaining agreements, if any, and (2) under salary or wage schedule agreed upon by Owner and Contractor;
 - (c) Salaries of contractor's employees when stationed at the field office, and employees from the main office performing functions related to Project;
 - (d) Cost of all employee benefits and taxes for unemployment compensation and social security (all such cost based on wages of salaries paid to Contractor's employees);
 - (e) Reasonable transportation, travel, hotel and relocation expenses of Contractor's employees connected with Project;
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- (f) Cost of all materials, supplies and equipment for Project and cost of transportation and storage;
 - (g) Payments to subcontractors for work performed pursuant to this Agreement;
 - (h) Cost, including transportation and maintenance, of all temporary facilities and hand tools which are employed or consumed;
 - (i) Rental charges for machinery and equipment, whether rented from Contractor or others, including installations, repairs, replacements, removal, transportation and delivery costs, at rental rates consistent with those prevailing in the area;
 - (j) Cost of premiums for all insurance and performance bonds which Contractor is required to obtain or that is deemed necessary by Contractor;

(k) Sales, use, gross receipts or similar taxes related to Project;

(l) Permit fees, licenses, tests, royalties, damages for infringement of patents (and costs of defending suits thereof), and deposits lost for causes other than Contractor's gross negligence;

(m) Losses, expenses or damages to the extent not compensated by insurance or otherwise (including settlements made with the written approval of Owner), and the cost of corrective work;

(n) Expenses such as telegrams, long-distance telephone calls, telephone service at the site and similar minor cash items connected with Project;

(o) Cost of removal of all trash and construction debris;

(p) Cost incurred due to an emergency affecting safety of persons and property;

(q) Cost of accounting services required herein;

(r) Legal fees reasonably and properly resulting from actions taken by Contractor on behalf of Owner or Project; and

SECTION 5

PAYMENTS

5.01 Time Schedule. Construction of Project shall commence on or about the 1st day of November 1998 ("Commencement Date"). Substantial completion of Project shall occur on the 31st day of May 1999 ("Completion Date"). Contractor shall prepare an estimated progress schedule for Project which shall set forth the dates for the commencement and completion of the various stages of construction. The schedule and Completion Date may be revised as provided in Section 6.

5.02 Progress Payments. On or before the 25th day of each month after Commencement Date, Contractor shall submit to Owner an application for progress payment ("Application for Progress Payment") in such detail reasonably required by Owner and based on the construction completed, along with the proportionate amount of Contractor's Fee for such period, such aggregate amount hereinafter referred to as "Progress Payment." Within ten days after receipt of said monthly Application for Progress Payment, Owner shall pay Contractor the appropriate amount for which Application for Progress Payment is made.

5.03 Retainage. Owner may retain ten percent (10%) of the amount of each monthly Progress Payment to assure performance of this Agreement. A reduction in the amount of funds retained shall be paid to Contractor if Owner and Contractor agree that satisfactory progress is being maintained in the construction of Project.

5.04 Final Payment. The final payment, ("Final Payment") shall be due and payable when Project is substantially completed and (1) delivered to Owner ready for occupancy or (2) when Owner occupies Project, whichever event occurs first, ("Substantial Completion"); PROVIDED, HOWEVER, in the event that there should remain minor items to be completed, then and in that event Contractor and Owner shall list such items and Contractor shall deliver a written guarantee to complete said items within a reasonable time thereafter. Owner may retain a sum equal to One Hundred Fifty Percent (150%) of the estimated costs of completing any unfinished items; PROVIDED, HOWEVER, that each unfinished item and the estimated cost of completing each unfinished item shall be listed separately. Thereafter, Owner shall pay Contractor on a monthly basis the amount retained for such unfinished items as said items are completed for the previous month. Contractor shall provide Owner with a Certificate of Completion and Application for Final Payment prior to Owner's Final Payment to Contractor.

5.05 Inspection. Progress Payments to Contractor shall not be construed as an absolute acceptance by Owner of the construction completed to the date of such Progress Payment except as to matters that are open and obvious. During the construction period, Owner shall exercise reasonable diligence in discovering and promptly reporting to Contractor all materials and labor which are not in accordance with drawings and specifications. Upon Completion Date, Owner shall diligently inspect all work for improper workmanship or defective materials, including work not open and obvious upon inspection during construction.

5.06 Payments Due and Unpaid. In the event Owner should fail to pay Contractor at the time that the payment of any amount becomes due under the terms of this Agreement, then and in that event Contractor may, and at any time thereafter, serve written notice that Contractor will stop work within five days after receipt of the notice by Owner. After the expiration of said five day period, Contractor shall have the right to stop all work on Project until payment of said unpaid amount has been paid to Contractor. Payments due to Contractor and unpaid shall bear interest at the highest legal commercial rate.

5.07 Waiver of Claims. The making of Final Payment shall constitute a waiver of all claims by Owner except those rising from unsettled liens, improper workmanship and defective materials appearing within one year after Completion Date, except those previously made in writing and unsettled. The acceptance of Final Payment shall constitute a waiver of all claims by Contractor except those previously made in writing and unsettled.

5.08 Discounts. All discounts for prompt payment shall accrue to Owner when paid directly by Owner or from a fund made available by Owner to Contractor for such payments. To the extent that such is paid with funds of Contractor, all cash discounts shall accrue to Contractor. All trade discounts, rebates and

refunds, and all returns from sale of surplus materials and equipment, shall be credited to Cost of Project.

5.09 Royalties and Patents. Contractor shall pay all royalties and license fees for materials, methods and systems. Contractor shall defend all suits or claims for infringement of any patent rights except when a particular design, process or product is specified by Owner.

SECTION 6

CONTINGENCIES

6.01 Change Orders. All changes to Project shall be authorized by a written change order authorizing such change and signed by Contractor and Owner ("Change Order"). Each Change Order shall be numbered and dated, and shall clearly itemize the amount attributable to Cost of Project and Contractor's Fee and shall reflect any change in Completion Date. The value of the work added or omitted in a Change Order shall be agreed upon by Owner and Contractor. A Change Order shall be signed by Contractor and Owner prior to Contractor proceeding with the work set forth in the Change Order.

6.02 Events Beyond Control: Cost of Project shall be increased by a reasonable amount and Completion Date shall be extended by a reasonable period upon the occurrence of events beyond Contractor's control as agreed upon by Owner and Contractor. Such additional costs and fee adjustments required by any event beyond Contractor's control shall be evidenced by a written Change Order executed within a thirty day period after such event occurs. Such events shall include, but not be limited to, the following: (1) an act or neglect by Owner or by third persons not under the control of Contractor; (2) changes required to comply with new laws, rules or regulations; (3) labor disputes; (4) earthquakes, tornado, windstorms, floods or other actions of the elements; (5) war; (6) fire; (7) concealed and unknown conditions below the surface of the ground or concealed and unknown conditions in an existing structure at variance with the conditions indicated by the drawings and specifications, information furnished by Owner, or of an unusual nature differing materially from those ordinarily encountered and generally recognized as inherent in work of the character provided for in this Agreement; or (8) any cause beyond Contractor's control which Contractor could not have reasonably foreseen.

6.03 Emergencies. In an emergency affecting the safety of persons or property, Contractor shall act, in Contractor's sole discretion, to prevent threatened damage, injury or loss. Any increase in the Cost of Project or extension of Completion Date on account of emergency work shall be determined as provided in Section 6.02.

SECTION 7

INSURANCE/INDEMNITY

7.01 Contractor. Contractor shall purchase and maintain the following insurance:

(a) Workers' Compensation Insurance that shall comply with the state law of the site of the Project relating to compensation of injured workmen; and

(b) Comprehensive General Liability Insurance, for not less than such reasonable limits of liability as may be required by Owner. Such insurance policies shall contain a provision that the policies will not be cancelled or not renewed until at least sixty days written notice has been given to Owner and Contractor. Certificates of Insurance showing such coverages to be in force shall be filed with Owner prior to commencement of the work.

(c) Contractor shall purchase and maintain "All Risk" Builder's Risk Insurance.

7.03 Waiver of Subrogation. Owner and Contractor waive all rights against each other, Subcontractors and Sub-subcontractors for damages caused by perils covered by insurance provided by Owner, except such rights as they may have to the proceeds of such insurance. Contractor shall require waivers from all Subcontractors and Sub-subcontractors.

7.04 Indemnity. Owner hereby indemnifies Contractor against all liabilities, claims and demands for negligent acts or personal injury or property damage arising out of or caused by any act or omission of Owner.

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Owner's separate Contractors and separate Sub-subcontractors, Owner's agents and employees arising from the commencement of construction until final completion. Contractor hereby indemnifies Owner against all liabilities, claims and demands for negligent acts or personal injury or property damage arising out of or caused by any act or omission of Contractor, Contractor's separate contractors and separate Sub-subcontractors, agents and employees arising from the commencement of construction until final completion. Contractor and Owner agree to use proper care not to cause damage to any adjoining or adjacent property. Contractor shall indemnify and hold Owner harmless from any liabilities, claims or demands for damage to such adjoining or adjacent property caused by Contractor.

SECTION 8

TERMINATION

8.01 Termination by Owner. In the event Contractor should at any time fail to perform the work with promptness or diligence, then and in that event Owner shall have the right to terminate this Agreement after ten days notice to Contractor (unless within said ten day period Contractor begins to remedy such failure.) In the event of termination by Owner, Owner shall pay Contractor for all work performed, all obligations incurred by Contractor which cannot be cancelled, and the proportionate amount of Contractor's Fee.

8.02 Termination by Contractor. In the event (1) the work should be stopped for a period of ten days by Owner, (2) Owner should fail to pay Contractor any sum then payable and due Contractor, or (3) Owner should fail for ten days to perform any other obligation hereunder, then and in that event Contractor may after five days notice to Owner stop work or terminate this Agreement and recover from Owner payment for all work performed, all obligations incurred by Contractor which cannot be cancelled, all loss sustained upon Project or material, Contractor's Fee on the Cost of Project incurred, and any other expense, loss or damage which Contractor may sustain.

8.03 Termination Without Cause. If the work should be stopped for a period of thirty days by any public law, regulation, acts of public officials or other causes not the fault of Owner or Contractor, then either Owner or Contractor shall have the right and option, upon ten day's notice to the other, to terminate this Agreement, in which event Owner shall pay Contractor for all Cost of Project, all obligations incurred by Contractor which cannot be cancelled, all loss sustained upon the Project or materials, and the proportionate amount of Contractor's Fee.

SECTION 9

MISCELLANEOUS PROVISIONS

9.01 Arbitration. Subsequent to the execution of this Agreement by the parties hereto, all claims, disputes, differences, controversies and questions which may arise concerning the matters and obligations set forth in this Agreement, or for the construction or application of this Agreement, or concerning any liabilities created hereunder, or any act or omission of any Party hereto, shall be subject to arbitration in accordance with the rules and regulations then in force of the American Arbitration Association. The prevailing party shall be entitled to their costs including reasonable attorney's fees; PROVIDED, HOWEVER, this clause shall not limit the right of any party to seek temporary injunctive relief where an unacceptable interim period may exist between the time the decision to arbitrate is made and the earliest time at which arbitration can be commenced.

9.02 Time of Essence. Time is of the essence of this Agreement.

9.03 Attorney's Fees. Any party who unreasonably fails to perform any covenant of this Agreement shall pay to the other party the amounts of all attorney's fees and expenses incurred or sustained by such other party in enforcing performance by the other party.

9.04 Notices. Any notices or other communication to be given under this Agreement to any party hereto shall be mailed certified mail, return receipt requested, addressed to such party as follows:

Contractor: Noah's Construction, Inc.
P.O. Box 9847
Longview, TX 75608

Owner: Caddx Controls, Inc.
1420 N. Main St.
Gladewater, TX 75647

A change of such mailing address by either party shall be made by giving notice to the other party in accordance with this Section. Such notice or other communication shall be deemed to have been given when so served, or upon the expiration of seventy-two (72) hours after such mailing, as the case may be.

9.05 Entire Agreement. This Agreement constitutes the entire Agreement between the parties hereto and none of the parties shall be bound by any promises, representations or agreements except as are herein expressly set forth.

9.06 Amendments. This Agreement can be amended, modified or supplemented only by a written document signed by the parties hereto. Any purported oral amendment, modification or supplement shall be void.

9.07 Filing of Agreement. This is a confidential Agreement among the parties hereto and this Agreement shall not be filed of record with any city, county, state or federal authority.

9.08 Assignment. The parties hereto shall not have the power or right to assign their respective duties and obligations hereunder unless such assignment is agreed to in writing by the parties hereto, or is provided otherwise herein.

9.09 Applicable Law. This Agreement shall be construed according to the laws of the State of Texas regardless of where such Agreement is signed or the site of Project.

9.10 Unenforceable Provisions. If any portion of this Agreement shall be held to be void or unenforceable, the balance thereof shall nevertheless be carried into effect.

9.11 Benefit. This Agreement shall be binding upon the parties, their

heirs, legal representatives, successors and permitted assigns.

9.12 Preamble Clauses. The preamble clauses hereto are hereby incorporated into this Agreement as though fully rewritten herein at length.

9.13 Descriptive Headings. The descriptive paragraph headings contained herein are for convenience only and are not intended to include or conclusively define all the subject matter in the paragraphs accompanying such headings and, accordingly, such headings should not be resorted to for interpretation of this Agreement.

9.14 Interpretation. Any words used herein shall be interpreted as singular or plural, and any pronouns used herein shall be interpreted as masculine, feminine or neuter, as the context so requires.

9.15 Exhibits. All Exhibits attached hereto are made a part hereof by reference and are hereby incorporated into this Agreement as though fully rewritten herein at length.

9.16 Acknowledgments. Each of the parties to this Agreement hereby acknowledges that such party has received a fully executed copy of this Agreement and further acknowledges that such party has carefully reviewed the representations, terms and conditions contained herein.

IN WITNESS WHEREOF, the parties have entered into this Agreement the day and year first above written.

"Contractor"

/s/ Noah Yoder

By Noah Yoder

Title President

"Owner"

/s/ JOE HURST

By JOE HURST

Title President

CONTRACTOR

EXHIBIT 23.1

CONSENT OF INDEPENDENT ACCOUNTANTS

We consent to the incorporation by reference in the Registration Statements on Form S-8 of ITI Technologies, Inc. (Registration Nos. 33-89826, 333-08943, 333-08945, 333-23751 and 333-58257) of our reports dated March 23, 1999, on our audits of the consolidated financial statements and financial statement schedule of ITI Technologies, Inc. as of December 31, 1998 and 1997, and for each of the three years in the period ended December 31, 1998, which reports are included in this Annual Report on Form 10-K.

/s/ PricewaterhouseCoopers LLP

PRICEWATERHOUSECOOPERS LLP

Minneapolis, Minnesota
March 26, 1999

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