ADI

ANALOG DEVICES, INC.

2000

ANNUAL

REPORT

ANALOG DEVICES

ONE TECHNOLOGY WAY
P.O. BOX 9106
NORWOOD, MA 02062-9106
(781) 329-4700
1-800-262-5643
WWW.ANALOG.COM

520-AR-01

"FOR MANY YEARS, WE HAVE BELIEVED THAT IN THE INTERNET AGE, SIGNAL PROCESSING WOULD BECOME ENABLING AND DEFINING TECHNOLOGY; THAT IS, THE ABILITY TO PROCESS REAL-WORLD ANALOG SIGNALS SUCH AS VOICE AND VIDEO IN BOTH ANALOG AND DIGITAL FORMATS WOULD ULTIMATELY BECOME THE MAIN GROWTH DRIVER FOR THE SEMICONDUCTOR INDUSTRY."

This document contains forward-looking statements that are based on current expectations, estimates and projections about the industries in which ADI operates, management's beliefs and assumptions made by management. These statements are not guarantees of future performance and involve risks, uncertainties and assumptions. For a discussion of the factors which may affect ADI's future performance and results of operations, see "Forward-Looking Statements" and "Factors That May Affect Results" in the section of this Report entitled "Management Analysis."

CORPORATE INFORMATION

GENERAL COUNSEL

Hale and Dorr LLP, 60 State Street, Boston, MA 02109

INDEPENDENT AUDITORS

Ernst & Young LLP, 200 Clarendon Street, Boston, MA 02116

TRANSFER AGENT

EquiServe Limited Partnership, PO Box 43010, Providence, RI 02940-3010; Tel: (800) 730-6001 (U.S.A.), (781) 575-3120 (Outside U.S.A.), www.equiserve.com

ANNUAL MEETING

Analog Devices will hold its Annual Stockholders' Meeting at 10:00 a.m., Tuesday, March 13, 2001, at the Hilton at Dedham Place, 95 Dedham Place, Dedham, MA.

STOCK TRADING

Analog Devices' common stock is traded on the New York Stock Exchange under the symbol ADI.

SALES OFFICES

Analog Devices serves its customers through direct sales offices throughout the United States and in Australia, Austria, Canada, China, Denmark, France, Germany, Hong Kong, India, Israel, Italy, Japan, Korea, the Netherlands, Singapore, Sweden, Taiwan and the United Kingdom; and more than fifty offices of representatives throughout the United States and around the world. The company has European Headquarters in Munich, Germany; Japanese Headquarters in Tokyo, Japan; and Southeast Asian Headquarters in Hong Kong, PRC. Analog Devices products are also sold through distribution.

MANUFACTURING FACILITIES

Analog Devices operates manufacturing facilities in Cambridge, Norwood, and Wilmington, MA; Santa Clara and Sunnyvale, CA; Greensboro, NC; Ireland; the United Kingdom; the Philippines and Taiwan.

SHAREHOLDER INQUIRIES

Shareholders of record should contact the Company's transfer agent regarding any changes in address, transfer of stock or account consolidation.

OTHER INFORMATION

To obtain a free copy of the 2000 Form 10-K Report or additional information, write to: Analog Devices, Inc., James O. Fishbeck, Director of Corporate Communications, One Technology Way, PO Box 9106, Norwood, MA 02062-9106, or visit ADI's home page at www.analog.com.

CORPORATE PROFILE

Analog Devices, Inc. is a world leader in the design, manufacture and marketing of high-performance analog, mixed-signal and digital signal processing (DSP) integrated circuits (ICs) used in signal processing applications.

As of the end of fiscal 2000, approximately 45% of ADI's revenues came from the communications market, making it the Company's largest and fastest-growing served market. Communications applications include wireless handsets and base stations, as well as products used for high-speed access to the Internet, including ICs used in ADSL and cable modems and central office networking equipment.

ADI serves the PC market with products that monitor and manage power usage, process signals used in flat panel displays and multimedia projectors and enable PCs to provide CD-quality audio. ADI also serves the high-end consumer market with ICs used in products such as digital cameras and camcorders, DVD players and surround sound audio systems.

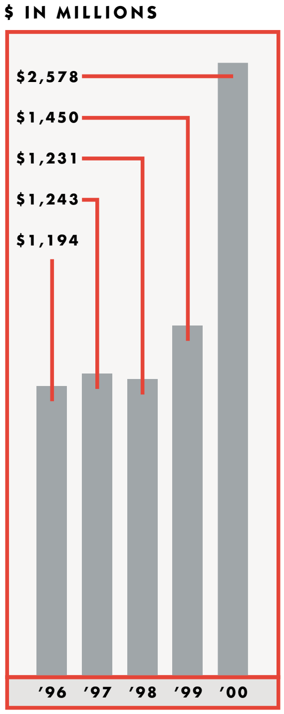
ADI provides a broad array of products to the industrial market, including products for automatic test equipment and for the digital speed control of AC and DC motors.

ADI's products are sold worldwide through a direct sales force, third-party industrial distributors and independent sales representatives. The Company has direct sales offices in 19 countries, including the United States. Approximately 45% of ADI's fiscal 2000 revenues came from customers in North America, while most of the balance came from customers in Western Europe and the Far East.

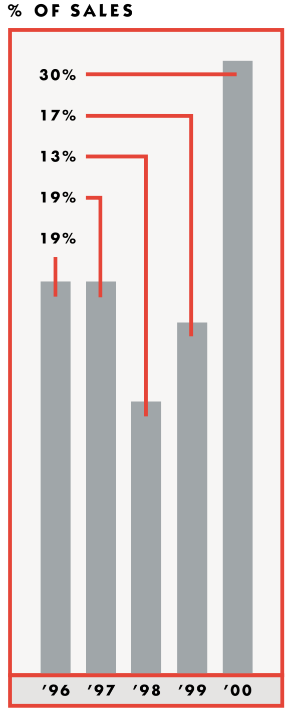
The Company is headquartered near Boston, in Norwood, Massachusetts, and has manufacturing facilities in Massachusetts, California, North Carolina, Ireland, the United Kingdom, the Philippines and Taiwan. Founded in 1965, Analog Devices employs approximately 9,100 people worldwide. The Company's stock (NYSE: ADI) is included in the Standard & Poor's 500 Index.

RESULTS SINCE 1996

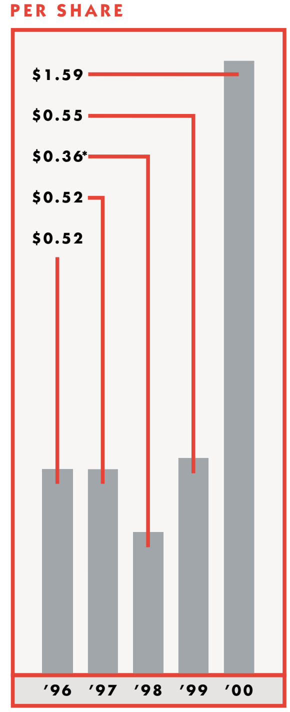
SALES
$ IN MILLIONS



OPERATING PROFIT
% OF SALES



DILUTED EARNINGS
PER SHARE



*Excludes cumulative effect of change in accounting principle.

Dear Shareholders:

Fiscal 2000 was by every measure the best year in our history. Revenues grew by over 75% and profits tripled from the previous year. Equally important, throughout the year we significantly strengthened our technology base and our organization to prepare for what we believe will be continued strong growth in the future.

For many years, we have believed that in the Internet age, signal processing would become enabling and defining technology; that is, the ability to process real-world analog signals such as voice and video in both analog and digital formats would ultimately become the main growth driver for the semiconductor industry. As such, at ADI we invested heavily to build one of the strongest analog and digital signal processing (DSP) teams in the industry. Our results in fiscal 2000 give credence to that claim: our analog and DSP sales grew more than twice as fast as the market. Our strategy to provide the best high-performance analog technology coupled with leadership DSPs, sometimes as components and often as systems-level solutions, is working well. Our newest products fueled our growth in fiscal 2000: new product revenues accounted for 25% of sales for the year, or over $600 million. We added over 600 analog and DSP engineers during the year, further strengthening our ability to continue to develop next-generation products for our customers.

To capitalize on these opportunities, we focused our research and development investments on emerging markets in wireless and broadband communications, enhancing the functionality of personal computers, providing key technology to high-end consumer products, and enabling many new applications for our industrial customer base. As a result, our sales mix has now shifted to approximately 45% communications, 25% consumer products and personal computers and 30% industrial products. Each of these markets is growing at impressive rates for ADI, as signal processing technology is becoming a more significant portion of the bill of materials of the end products within these markets. The increased value added by our technology has raised the secular growth opportunity available to ADI.

We increased our operating margin to record levels during fiscal 2000. By the fourth quarter of fiscal 2000, our operating margin approached 35% of sales, up from 21% in the fourth quarter of the prior year. These gains resulted not only from the value created by our products and cost improvements throughout the company, but also from a relentless belief throughout our organization that these gains were both possible and necessary. Our exceptional sales and margin growth resulted in $80 million in bonus payments for the year to those who made these gains possible—our employees.

We are proud of our many accomplishments during the past few years. The body of this annual report describes the opportunities that we believe will continue driving our future growth. We take special pride in the strength, breadth of talent and enthusiasm of all our people around the world who believe that we can continue to win and are committed to making that happen.

Ray Stata
Chairman of the Board

Jerald G. Fishman
President and Chief Executive Officer

CHAIRMAN RAY STATA (LEFT) AND PRESIDENT AND CHIEF EXECUTIVE OFFICER JERRY FISHMAN

Broadband Communications

The Internet has spurred a host of innovations throughout the markets ADI serves. Broadband access enables fast downloads for millions of users wired by telephone and cable lines. Voice-over-Network (VoN) technology is extending the breadth of Internet services beyond websites to long distance telephone service. Routers, switches, hubs, remote access servers, concentrators, modems, Digital Subscriber Line Access Multiplexers (DSLAMs), set-top boxes and gateways are among the myriad telecommunications equipment that connects to comprise the Internet. All require the advanced signal processing technologies supplied by ADI.

ADI drives the broadband industry, literally. In 2000, our line drivers (high-performance amplifiers that propagate the data-packed signal across the telephone line) were found in 80% of the Digital Subscriber Line (DSL) and cable modem ports shipped. Many telecommunications manufacturers rely on ADI's end-to-end DSL chipset as well. We shipped eight million end-to-end chipset solutions in 2000, making ADI the world's highest-volume merchant supplier of DSL chipsets.

While the data transmitted over broadband lines typically contains pictures and text, these networks are increasingly carrying digital voice packets using standards like Voice-over-Internet Protocol (VoIP). The world's telecommunications giants are driving the fast-growing VoN equipment market.

Deep in the network, far from the Web surfers, optical switches and routers form the backbone of the Internet. Here, data transmission is measured in gigabits per second and networks are optimized for metro area or long-haul transmission. The optical networking equipment found in these networks poses many design challenges for original equipment manufacturers (OEMs). We believe ADI is uniquely positioned to help solve these challenges. In 2000, we began shipping advanced mixed-signal devices targeted at metro area applications. Using these devices simplifies the manufacturing process for OEMs. In addition, field set-up and network management is made easier. For long-haul applications, we will integrate our mixed-signal and micromachine mirrors (*i*MEMS®) technology to enable a new class of all-optical switch in development at Nortel Networks, Onix and others. Given the range of ADI technology that can be applied to optical networking, we believe this market will constitute an increasing percentage of revenues from communications applications.

THE FUTURE WILL BE DELIVERED TO US ON A BEAM OF LIGHT. FIBER OPTICS IS THE TECHNOLOGY THAT UTILIZES LIGHT TO MEET THE NEARLY INSATIABLE DEMAND FOR BANDWIDTH CREATED BY INTERNET USAGE AND MULTIMEDIA APPLICATIONS.

ADI'S DSL SOLUTION BUNDLES HIGH-PERFORMANCE ANALOG AND DSP WITH DATA PUMP FIRMWARE AND SOFTWARE. OUR SOLUTION CAN PUSH THE SPEED OF DATA TRANSMISSION OVER EXISTING TELEPHONE LINES TO GREATER THAN 10 MEGABITS PER SECOND—NEARLY 200 TIMES FASTER THAN V.90 MODEMS.

IN 2000, MILLIONS OF LINES WERE DEPLOYED USING ADI DSL TECHNOLOGY. BROADBAND CONNECTIVITY WILL CONTINUE TO GROW IN 2001 AND BEYOND.

ADI DSPs ARE FOUND IN HIGH-DENSITY VOICE-OVER-NETWORK SERVERS AND CONCENTRATORS. THESE APPLICATIONS SUPPORT THOUSANDS OF PORTS PER CHASSIS WITH STRICT PER-PORT POWER CONSUMPTION AND SPACE REQUIREMENTS.

IN 2001, MANY OPERATORS WILL OFFER DATA RATES UP TO 115 KILOBITS PER SECOND, ABOUT TWICE THE SPEED OF PC MODEMS AND TEN TIMES FASTER THAN EXISTING DIGITAL WIRELESS MODEMS. THESE DATA RATES ENABLE PAGERS, PDAs AND CELLULAR PHONES TO RECEIVE AND TRANSMIT STILL IMAGES, LOW-RESOLUTION STREAMING VIDEO AND COMPLEX EMAILS WITH ATTACHMENTS.

EVERY CELLULAR PHONE AND WIRELESS APPLIANCE USES CELLULAR BASE STATIONS AND ANTENNA TOWERS TO COMMUNICATE. ALSO KNOWN AS WIRELESS INFRASTRUCTURE EQUIPMENT, THESE SYSTEMS DEMAND THE HIGHEST-PERFORMANCE DATA CONVERTERS, AMPLIFIERS AND DSPs IN THE INDUSTRY.

ADI'S RADIO TECHNOLOGY ACHIEVES SUCH BREAKTHROUGHS IN SIZE, PERFORMANCE AND POWER CONSUMPTION THAT THE AREA FOR THE CELLULAR FUNCTION IS REDUCED TO ABOUT HALF THE SIZE OF A BUSINESS CARD. A GSM PHONE OR GPRS TERMINAL CAN NOW BE EMBEDDED IN A PDA DEVICE OR SNAPPED ON AS AN ACCESSORY.

THERE ARE MORE ANALOG COMPONENTS THAN DIGITAL COMPONENTS IN A DIGITAL PHONE. ADI HAS THE HIGH-PERFORMANCE, LOW-POWER AND MINIATURIZATION TECHNOLOGY TO ENABLE NEW FORM FACTORS SUCH AS THE WRISTWATCH PHONE.

Wireless Communications

The mobile phone has served as the icon of wireless communications technology. But the next wave of wireless applications is far more diverse. Handheld organizers, e-books, Web tablets, thin laptops, personal digital assistants (PDAs), PC phone cards, music players, pagers and game consoles will increasingly populate the wireless world. Homes, offices, cars, trucks and vending machines will also integrate wireless functionality. ADI's portfolio of radio frequency (RF), mixed-signal, power management and DSP technology has attracted customers who want to embed wireless communications in these and many more electronic appliances.

Breakthroughs such as the 1,000-hour standby time enabled by our Othello™ radio chipset are making possible such features as "always-on." The growing demand for wireless Internet access and wireless email is moving the market toward the General Packet Radio Service (GPRS) data standard for cellular communications. Emerging wireless products, including email pagers and cellular-equipped PDAs, integrate ADI's high-performance analog and DSP components. At the same time, the traditional mobile phone makers are enhancing their products for this new generation of appliances. In 2000, ADI announced top-tier cellular handset manufacturer Siemens AG of Germany as the first high-volume handset customer for the Othello radio and Softfone™ baseband chipsets. Siemens will feature a complete microphone-to-antenna signal chain of ADI technology in its next GSM (Global System for Mobile Communications) phone.

An electronics revolution is under way at the wireless infrastructure level as well. The equipment that must be installed to enable higher speed and greater coverage with continuously evolving communications standards is the largest source of wireless revenue at ADI. According to industry analysts Gartner Group, the wireless infrastructure equipment market was estimated to be about $34 billion in 2000, with over $3 billion representing RF integrated circuits, power amplifiers, mixed-signal converters and DSP sales. Over the next few years the industry will transition to third generation (3G) systems, creating more opportunities for ADI.

Digital Imaging and Digital Entertainment

ADI's high-performance analog and DSP technology plays a critical role in many of the most popular digital entertainment products. Our products improve the fidelity of sound, the realism of video and the clarity of images in applications such as DVD players, Dolby® and DTS® audio/video receivers, digital video camcorders, digital still cameras and surround sound home theater systems.

The digital entertainment market represents an estimated $4 billion in annual sales of data converters, DSPs and analog circuits used in high-performance audio/video applications, according to World Semiconductor Trade Statistics (WSTS). In applications that require the highest levels of analog and digital signal processing performance, ADI has customer relationships and core technologies to enable our continued success.

We are supplying the most respected brands in the consumer industry. Bose, Casio, Denon, Fuji, JVC, Kenwood, Matsushita, Samsung, Sanyo, Sony and Toshiba are experiencing tremendous demand for their products that integrate our technology. According to a survey by the Consumer Electronics Association,[1] DVD players and digital cameras ranked first and second, respectively, on holiday wish lists. Semiconductor industry analyst Dataquest predicts this sector of the consumer electronics industry will grow 23% in 2001. The overall market growth, coupled with our presence in the industry's strongest brands, has propelled ADI to the position of fastest-growing supplier of analog components for consumer electronics.

Respectful of the power of advertising in consumer markets, we have devised a branding strategy to acknowledge the pivotal role our technology plays in these systems. Digital video disc players promote the video data converters inside with the Analog Devices, Inc. Color Stream™ Processing trademark. Audio equipment leaders such as Denon and Kenwood promote the DSP inside with the Analog Devices, Inc. SHARC® DSP trademark.

Our proven ability to integrate amplifiers, converters, power management and DSPs will also be an important advantage in these high-volume applications.

[1] *"7th Annual Holiday Purchase Patterns" survey, September 25, 2000, CEA Research Department.*

ADI DEVELOPED A HIGH-PERFORMANCE ANALOG CHIPSET FOR DIGITAL VIDEO CAMERAS THAT ENABLED THE WORLD'S FIRST MEGA-PIXEL CAMCORDER.

ADI'S DIGITAL ENTERTAINMENT STRATEGY FOCUSES ON TOP-TIER CUSTOMERS. BUILT ON 35 YEARS OF INVESTMENTS, OUR ANALOG INNOVATIONS ENABLE PRODUCTS FROM WEB TV SET-TOP BOXES TO DIGITAL CAMERAS.

THE DIGITAL ENTERTAINMENT MARKET REPRESENTS AN ESTIMATED $4 BILLION IN ANNUAL SALES OF DATA CONVERTERS, DSPs AND ANALOG CIRCUITS USED IN HIGH-PERFORMANCE AUDIO AND VIDEO APPLICATIONS.

APPROXIMATELY SIX MILLION HIGH-END DVD PLAYERS WERE SOLD IN 1999, AND INDUSTRY ANALYSTS PROJECT A FOURFOLD INCREASE IN DVD PLAYER SALES BY 2002. WE ESTIMATE ADI VIDEO ENCODERS ARE INCLUDED IN MORE THAN 50% OF ALL HIGH-END DVD PLAYERS.

ADI PROVIDES THE ANALOG TECHNOLOGY THAT HIGH-RESOLUTION DIGITAL STILL CAMERAS REQUIRE. THE INDUSTRY'S ADOPTION OF JPEG2000 AS THE NEW COMPRESSION STANDARD ALSO CREATES NEW OPPORTUNITIES FOR ADI PROPRIETARY TECHNOLOGY IN THE DIGITAL IMAGE PROCESSING AREA.

AS SURROUND SOUND HOME THEATERS HAVE BECOME AFFORDABLE TO PERFORMANCE-CONSCIOUS CONSUMERS, OUR 32-BIT SHARC DSP HAS BECOME THE DE FACTO STANDARD FOR CREATING THE HIGHEST-PERFORMANCE DOLBY AC-3 DECODER IN THE MARKETPLACE.

HIGH-PERFORMANCE ANALOG IS INCREASINGLY IMPORTANT TO MULTIMEDIA PCs AND PORTABLES. IN DESKTOP SYSTEMS, WE ESTIMATE THE HIGH-PERFORMANCE ANALOG CONTENT ROSE TO $20 IN 2000, UP FROM LESS THAN $5 IN 1997. PORTABLE SYSTEMS SAW SIMILAR GROWTH, UP FROM ABOUT $7 PER SYSTEM IN 1997 TO $16 IN 2000.

OUR ANALOG-TO-DIGITAL CONVERTERS ALLOW NEW DIGITAL MONITORS AND PROJECTORS TO CONNECT WITH THE INSTALLED BASE OF MORE THAN 500 MILLION PCs THAT HAVE “LEGACY” ANALOG OUTPUTS.

ADI POWER REGULATORS FOR INTEL SPEEDSTEP-EQUIPPED PROCESSORS ENABLE A NEW CLASS OF PORTABLE COMPUTERS WEIGHING LESS THAN THREE POUNDS.

ADI ANALOG INTERFACES FOR LCD MONITORS AND PROJECTORS CAN BE FOUND IN NEARLY EVERY PRODUCT ON THE MARKET TODAY, INCLUDING THE PORTABLE PROJECTOR THAT WON “BEST OF SHOW” AT THE PRESTIGIOUS COMDEX FALL 2000 EXHIBITION.

FROM IMAGING AND AUDIO TO DISPLAY TECHNOLOGIES, THE EXPLOSION OF HIGH-SPEED APPLICATIONS THROUGHOUT THE MULTI-MEDIA AND PORTABLE COMPUTING INDUSTRY CANNOT BE READILY SAT-ISFIED WITH ONE OR TWO GENERIC DATA CONVERTERS. THE DIVERSITY OF DEMAND REQUIRES THE BREADTH OF ADI’S PORTFOLIO, UNMATCHED IN THE INDUSTRY.

ADI’S AUDIO SOLUTIONS SHIP WITH ONE OUT OF EVERY TWO DESKTOP PCs SOLD.

Multimedia and Portable Computing

The personal computing industry is an excellent example of how the digital world drives new opportunities for high-performance analog processing. The advent of 500 Mhz and faster processors, the advancement of human interface technology and the requirement for Internet connectivity are the major trends driving ADI's investments and our successes in the PC market. Our collaborations with Intel® and Microsoft® have led to breakthrough technology developments in each of these areas. Our application support teams have worked closely with the industry's leading OEMs to integrate these advanced technologies into mainstream portable and multimedia PC platforms.

Processors running at 500 Mhz and faster constituted more than half of PC unit shipments in 2000 and are estimated to make up nearly 80% of the shipments in 2001.[2] At these speeds, power consumption and heat dissipation are critical gates to system performance. ADI power regulators for Intel SpeedStep™-equipped processors extend battery life and enable a new class of portable computers weighing less than three pounds.

Over the past three years, we have worked with Intel and Microsoft to re-architect the PC audio subsystem for a better user experience. At the peak of 2000 production, half of all PCs sold featured the SoundMAX® high-performance audio solution from ADI. We expect our market share will increase in 2001, driven by MP3 and DVD audio content, as well as the Internet trend toward audio-rich websites.

ADI has similarly played a leadership role in the migration from analog computer displays to LCD monitors and projectors. Our DecDriver™ products are integral to the drive electronics of high resolution LCD projectors. Our analog-to-digital converters allow new digital monitors and projectors to connect with the installed base of over 500 million PCs that have "legacy" analog outputs. We estimate ADI converters are solving this high-speed challenge in more than 50% of all LCD monitors and more than 70% of all LCD projectors.

We are firmly established as a strategic supplier to leading OEMs, enabling value-added functions across these diverse subsystems. For this reason, we are optimistic about the prospects for growth and profitability for our high-performance signal processing products in this market.

[2] *IDC, June 2000, Worldwide PC Forecast Update.*

Industrial Applications

Industrial applications throughout the world's manufacturing, instrumentation and automotive industries accounted for approximately 30% of ADI's fiscal 2000 revenues. Although it may not be obvious, all around us, signal processing technologies are increasingly being applied to the control and measurement of real-world phenomena such as weight, motion, temperature and pressure. We have served tens of thousands of industrial customers for many years with data converters, amplifiers and other analog products. Now more than ever, the precision and accuracy requirements of today's emerging industrial applications demand the high-performance analog technology on which ADI was founded. ADI's broad product portfolio and world-class applications expertise provide a stable engineering partner for these customers as they pioneer new industrial applications.

From the security scanners at airports around the world to manufacturing process control and robotics on factory floors, weigh scales, automotive airbags, scientific, medical and engineering instrumentation, bar code scanners, ultrasound equipment, computer-aided tomography (CAT) scanners and semiconductor automatic test equipment, an infusion of electronics is driving Part Two of the industrial revolution. Serving the diversity of applications in this market requires the breadth and depth of ADI's portfolio, unmatched in the industry. During fiscal 2000, we continued to aggressively expand our product portfolio and increase our market share, already three times more than our closest competitors in high-performance amplifiers and converters.

In addition to traditional industrial applications, ADI has pioneered the long-sought breakthrough that has made possible varying the speed of AC-synchronous motors to save energy and reduce noise. ADI DSP-based motor control solutions are featured in Electrolux Compressor Corporation's Frigidaire® brand front-load washing machine. ADI technology has also been selected by Sharp Electronics for high-efficiency refrigerators and by Toshiba/Carrier for high-efficiency air conditioners.

We believe that ADI's outstanding brand recognition and long-standing customer relationships provide a strong platform for continued growth. Moreover, long product life cycles, high margins and the stability created by the broad, geographically-dispersed customer base contribute to the strategic value of the industrial market to ADI.

ENGINEERS RELY ON HIGH-SPEED, HIGH-ACCURACY MEASUREMENT EQUIPMENT TO TEST DESIGNS OF EVERY TYPE OF ELECTRONICS EQUIPMENT. ADI AMPLIFIERS AND CONVERTERS HANDLE THE SIGNAL CONDITIONING AND CONVERSION IN THESE AND MANY OTHER INSTRUMENTATION APPLICATIONS.

WIRELESS COMMUNICATION, DIGITAL CONTROLS, PREDICTIVE MAINTENANCE, NONINTRUSIVE DIAGNOSTICS AND SOFTWARE UPGRADES ARE IMPORTANT FEATURES IN THE NEW CLASS OF INDUSTRIAL EQUIPMENT NOW IN DEVELOPMENT.

HIGH-PERFORMANCE ANALOG AND DSP TECHNOLOGY IS USED IN A VARIETY OF MEDICAL EQUIPMENT, INCLUDING BLOOD ANALYZERS, CAT SCANNERS, ULTRASOUND EQUIPMENT, MAGNETIC RESONANCE IMAGING (MRI) SYSTEMS AND A MULTITUDE OF PATIENT MONITORING DEVICES.

PROCESS CONTROL SYSTEMS ARE BEING UPGRADED TO NEVER-FAIL SYSTEMS THAT CAN SENSE, DIAGNOSE AND COMMUNICATE POTENTIAL PROBLEMS, MAXIMIZING PRODUCTION TIME AND RETURN ON ASSETS.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Dollars in thousands, except per share data)	2000	1999	1998	1997	1996
Net sales	$ 2,577,547	$ 1,450,379	$ 1,230,571	$ 1,243,494	$ 1,193,786
Change in sales over prior year	78%	18%	(1%)	4%	27%
Gross margin	1,461,027	714,736	588,486	620,963	600,850
% of sales	57%	49%	48%	50%	50%
Research and development expense	400,566	257,039	219,354	196,148	177,772
% of sales	16%	18%	18%	16%	15%
Purchased in-process research and development	–	5,140	–	–	–
Selling, marketing, general and administrative expense	293,364	209,639	207,487	191,613	195,842
% of sales	11%	14%	17%	15%	16%
Restructuring charge	–	–	17,000	–	–
Gain on sale of business, net	–	–	(13,100)	–	–
Operating income	767,097	242,918	157,745	233,202	227,236
% of sales	30%	17%	13%	19%	19%
Equity in loss (income) of WaferTech	–	1,149	9,780	(214)	97
Total nonoperating (income) expenses	(98,614)	(15,771)	(2,494)	(2,463)	(3,601)
Income before income taxes	865,711	257,540	150,459	235,879	230,740
% of sales	34%	18%	12%	19%	19%
Provision for income taxes	258,579	60,721	30,971	57,660	58,839
Effective income tax rate	30%	24%	21%	24%	26%
Net income before cumulative effect of change in accounting principle	607,132	196,819	119,488	178,219	171,901
Cumulative effect of change in accounting principle	–	–	(37,080)	–	–
Net income after cumulative effect of change in accounting principle	$ 607,132	$ 196,819	$ 82,408	$ 178,219	$ 171,901
Earnings per share before cumulative effect of change in accounting principle:					
Basic	$ 1.71	$ 0.58	$ 0.37	$ 0.57	$ 0.56
Diluted	$ 1.59	$ 0.55	$ 0.36	$ 0.52	$ 0.52
Earnings per share after cumulative effect of change in accounting principle:					
Basic	$ 1.71	$ 0.58	$ 0.26	$ 0.57	$ 0.56
Diluted	$ 1.59	$ 0.55	$ 0.25	$ 0.52	$ 0.52
Shares used in computing net income per share (in thousands):					
Basic	353,363	336,482	323,148	319,188	306,724
Diluted	381,157	362,904	355,750	354,618	342,754
Pro forma amounts with the change in accounting principle related to revenue recognition applied retroactively:					
Net sales	–	–	$ 1,230,571	$ 1,214,602	$ 1,183,186
Net income	–	–	119,488	167,515	168,328
Net income per share:					
Basic	–	–	0.37	0.53	0.55
Diluted	–	–	0.36	0.49	0.51

CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in thousands)	2000	1999	1998	1997	1996
ASSETS					
Current assets:					
Cash, cash equivalents and short-term investments	$ 2,235,265	$ 762,444	$ 304,906	$ 340,607	$ 299,919
Accounts receivable, net	463,912	260,871	204,144	252,211	230,113
Inventories	332,094	248,936	275,076	225,966	218,877
Other	136,743	106,859	119,403	76,645	63,928
Total current assets	3,168,014	1,379,110	903,529	895,429	812,837
Property, plant and equipment, net	779,226	642,806	703,431	661,635	583,322
Intangible assets, deferred charges and other assets	464,097	196,438	254,770	206,789	112,113
	$ 4,411,337	$ 2,218,354	$ 1,861,730	$ 1,763,853	$ 1,508,272
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current liabilities:					
Short-term borrowings, current portion of long-term debt and capital lease obligations	$ 15,690	$ 97,061	$ 14,459	$ 11,733	$ 11,138
Accounts payable and accrued liabilities	407,213	214,653	139,021	173,098	166,826
Deferred income on shipments to distributors	140,369	100,788	113,784	37,013	38,400
Income taxes payable	86,625	66,761	53,595	52,550	46,459
Total current liabilities	649,897	479,263	320,859	274,394	262,823
Long-term debt and capital lease obligations	1,212,960	16,214	340,758	348,852	353,666
Other noncurrent liabilities	244,830	106,846	71,724	52,477	28,948
Stockholders' equity	2,303,650	1,616,031	1,128,389	1,088,130	862,835
	$ 4,411,337	$ 2,218,354	$ 1,861,730	$ 1,763,853	$ 1,508,272

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)	2000	1999	1998	1997	1996
Net income	$ 607,132	$ 196,819	$ 82,408	$ 178,219	$ 171,901
Adjustments to net income	97,373	245,606	155,706	133,294	(24,035)
Cash flows from operating activities	704,505	442,425	238,114	311,513	147,866
Cash flows from investing activities	(456,217)	(358,041)	(186,960)	(225,819)	(305,569)
Cash flows from financing activities	1,130,290	6,717	(75,469)	(10,640)	297,443
Effect of exchange rate changes on cash	1,952	1,459	(1,955)	4,438	1,066
Net increase (decrease) in cash and cash equivalents	1,380,530	92,560	(26,270)	79,492	140,806
Cash and cash equivalents at beginning of year	355,891	263,331	289,601	210,109	69,303
Cash and cash equivalents at end of year	$ 1,736,421	$ 355,891	$ 263,331	$ 289,601	$ 210,109
Number of employees at end of year	9,100	7,400	7,200	7,500	6,900
Number of shareholders of record	4,400	4,600	6,200	5,000	4,900

QUARTERLY TRENDS

SALES AND EARNINGS

	Sales, in Millions of Dollars						Diluted Earnings per Share, in Dollars					
	1Q	2Q	3Q	4Q	Year	Growth	1Q	2Q	3Q	4Q	Year	Change
1996	280.8	303.3	305.0	304.7	1,193.8	27%	0.13	0.13	0.13	0.13	0.52	37%
1997	292.1	300.8	318.1	332.5	1,243.5	4%	0.11	0.13	0.13	0.15	0.52	1%
1998	317.8	319.4	295.7	297.7	1,230.6	(1%)	0.02	0.12	0.03	0.08	0.25	(52%)
1999	300.5	340.1	378.8	431.0	1,450.4	18%	0.09	0.11	0.15	0.20	0.55	120%
2000	490.3	581.0	700.6	805.6	2,577.5	78%	0.25	0.32	0.50	0.52	1.59	189%

RETURN ON CAPITAL AND EQUITY

	Annual Return on Average Capital (a)					Annual Return on Average Equity (b)				
	1Q	2Q	3Q	4Q	Year	1Q	2Q	3Q	4Q	Year
1996	18%	16%	16%	15%	17%	24%	24%	23%	21%	23%
1997	13%	14%	14%	15%	14%	18%	18%	19%	19%	19%
1998	1%	12%	3%	8%	6%	1%	16%	3%	9%	7%
1999	9%	10%	14%	18%	13%	10%	12%	15%	19%	14%
2000	21%	26%	38%	29%	29%	22%	27%	39%	37%	31%

EQUITY AND MARKET PRICE PER SHARE

	Ending Equity per Share, in Dollars (c)				Average Market Price per Share, in Dollars				Valuation Ratio (d)			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
1996	2.29	2.43	2.59	2.72	8.53	10.00	9.33	9.48	3.7	4.1	3.6	3.5
1997	2.83	2.96	3.13	3.36	12.47	12.03	14.01	16.76	4.4	4.1	4.5	5.0
1998	3.37	3.50	3.46	3.52	14.15	16.67	13.29	8.63	4.2	4.8	3.8	2.5
1999	3.62	4.18	4.36	4.62	13.16	15.40	21.65	25.92	3.6	3.7	5.0	5.6
2000	4.96	5.26	5.76	6.44	37.95	71.71	77.83	81.42	7.7	13.6	13.5	12.6

STOCK PRICES

The following table shows the quarterly high and low prices for the Company's stock on the New York Stock Exchange:

	2000				1999			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
High	$52.63	$94.69	$100.00	$103.00	$16.13	$19.19	$25.50	$30.22
Low	$27.00	$43.00	$ 54.00	$ 56.06	$ 9.66	$12.19	$17.53	$20.81

No cash dividends have ever been paid by the Company.

(a) Total capital is the sum of stockholders' equity plus total debt, including capitalized leases. Return on average capital is the annualized sum of net income and after-tax interest charges, divided by average total capital employed during the period.

(b) Return on average equity is annualized net income divided by average equity employed during the period.

(c) Ending equity per share is based upon shares outstanding at the end of each quarter.

(d) Valuation ratio is quarterly average market price per share divided by ending equity per share.

FINANCIAL SECTION

MANAGEMENT ANALYSIS

COMPANY OVERVIEW

We are a world leader in the design, manufacture and marketing of high-performance analog, mixed-signal and digital signal processing (DSP) integrated circuits (ICs) used in signal processing applications.

We produce a wide array of products for a variety of customers and markets. Applications for our products include communications, cellular telephones, computers and computer peripherals, consumer electronics, automotive electronics, factory automation, process control and military and space systems.

A growing market for our communications products has emerged due to the rapid development of broadband and wireless communications infrastructure around the world combined with the development of the Internet. Our expertise in combining analog and digital functionality on a single chip has allowed us to develop products that fulfill the technological challenges of this complex and rapidly changing market.

Increased interface between users and the PC through monitors, printers, scanners and audio devices and the increasing need for power and thermal management capability in PCs have provided us with many opportunities in the computer market. Our ability to integrate analog, DSP and mixed-signal functionality on ICs has enabled us to supply many critical high-performance components required by PC manufacturers.

The acquisition and display of signals combined with the requirement for digital processing of these signals has allowed us to combine analog and digital design capability to provide solutions that conform to the rigorous cost, size and reliability constraints of the consumer electronics market. Examples of products that incorporate our technology are compact disc players, DVD players and digital camcorders and cameras.

We serve the industrial market by providing components for data acquisition systems, automatic process control systems, robotics, environmental control systems and automatic test equipment. We also provide products to the instrumentation market for use in engineering, medical and scientific instruments.

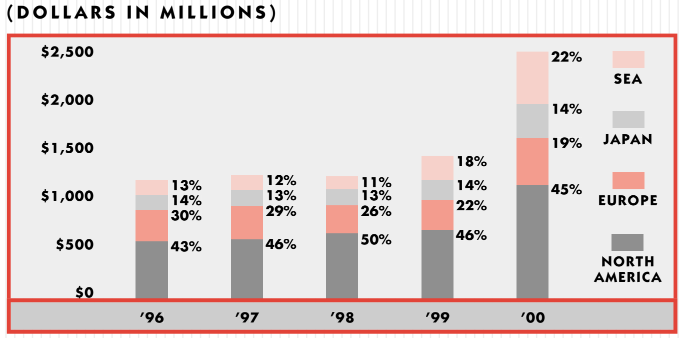
Our products are sold worldwide through a direct sales force, third-party industrial distributors and independent sales representatives. We have direct sales offices in 19 countries, including the United States.

We are headquartered near Boston, in Norwood, Massachusetts, and have manufacturing facilities in Massachusetts, California, North Carolina, Ireland, the United Kingdom, the Philippines and Taiwan. Founded in 1965, we employ approximately 9,100 people worldwide. Our stock is listed on the New York Stock Exchange under the symbol ADI and is included in the Standard & Poor's 500 Index.

RESULTS OF OPERATIONS

Net sales were $2,578 million in fiscal 2000, an increase of 78% over net sales of $1,450 million in fiscal 1999. This increase in net sales was attributable to continued growth in the markets we serve. Sales into all end-markets increased in fiscal 2000 with the communications market representing the largest growth area. Additionally, sales of new products, which we define as sales of products introduced in the prior six quarters, comprised 25% of net sales in fiscal 2000. Geographically, international sales represented 55% of net sales, up from 54% in fiscal 1999. International sales to Europe, Japan and Southeast Asia represented 19%, 14% and 22% of net sales, respectively. Europe was the only international region that declined as a percentage of sales, largely attributable to a weakening Euro/U.S. dollar exchange rate over the prior fiscal year. In absolute dollars, net sales increased year over year by 72% in the United States, 61% in Europe, 75% in Japan and 114% in Southeast Asia.

SALES
(DOLLARS IN MILLIONS)

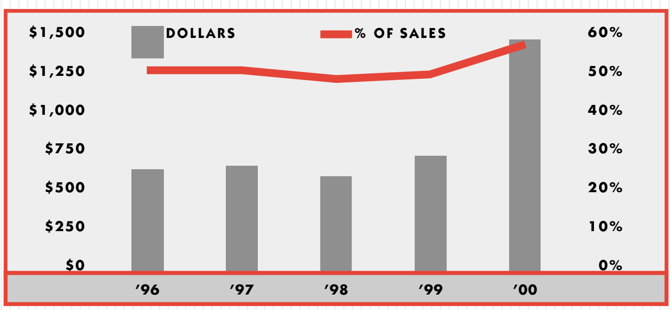


Net sales of $1,450 million in fiscal 1999 represented an 18% increase over fiscal 1998 sales of $1,231 million. The significant growth in the use of analog, digital and mixed-signal ICs

MANAGEMENT ANALYSIS

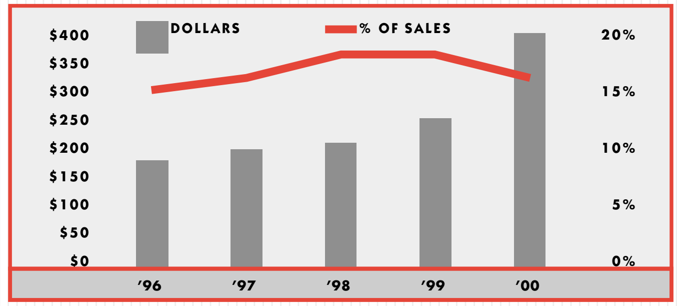
to address the signal processing needs of the growing broadband and wireless communications, computer and computer peripherals markets was the main reason for the sales increase in fiscal 1999. In addition, a recovery in the semiconductor industry generally, partially offset by a decline in automatic test equipment sales, contributed to the sales increase in fiscal 1999. Demand for our communications, computer and consumer products resulted in sales increases in all geographic regions during fiscal 1999. Sales to North American customers increased 8% over fiscal 1998. Sales in Europe in the first half of fiscal 1999 had declined from prior year levels but as the fiscal year progressed, demand increased resulting in a relatively flat level of sales year over year. Sales in Japan increased 23% as demand increased for our products as the Japanese economy continued its recovery. Sales in other Southeast Asian countries in fiscal 1999 doubled from the levels achieved in fiscal 1998. The increased demand was attributed to the increased use of our products in the communications and computer products markets, both of which experienced significant growth during fiscal 1999.

GROSS MARGIN
(DOLLARS IN MILLIONS)



Gross margin was $1,461 million, or 56.7% of net sales in fiscal 2000. The increase in gross margin as a percentage of sales from the 49.3% achieved in fiscal 1999 was due primarily to the favorable effect of fixed costs being allocated across a higher sales base and improved manufacturing efficiencies as production increased at our wafer fabrication, assembly and test facilities. Gross margin increased to 49.3% of sales in fiscal 1999, from 47.8% in fiscal 1998. This increase was primarily attributable to higher sales and tight control of internal manufacturing spending.

RESEARCH & DEVELOPMENT EXPENSE
(DOLLARS IN MILLIONS)



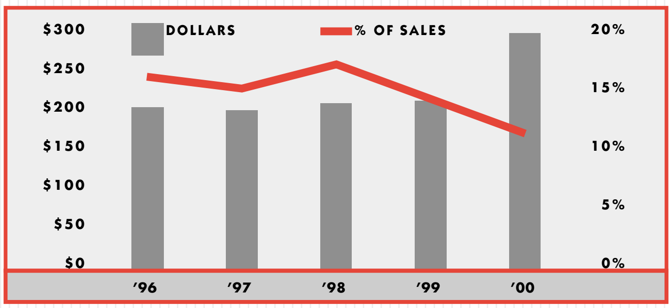
Research and development (R&D) expense was $401 million in fiscal 2000, compared to $257 million in fiscal 1999. As a percentage of sales, R&D spending declined to 15.5% in fiscal 2000 from 17.8% in fiscal 1999. In absolute dollar terms, R&D spending increased by $144 million in fiscal 2000. Additional expenses associated with a 25% increase in engineering headcount, combined with the effect of increased bonus payments during fiscal 2000, were the main reasons for the year over year increase. We expect to continue the development of innovative technologies and processes for new products targeted for broadband and wireless communications applications, imaging, audio and high-performance power and thermal management products for computer and consumer product applications. We believe that a continued commitment to research and development is essential in order to maintain product leadership with our existing products and to provide innovative new product offerings, and therefore we expect to continue to make significant R&D investments in the future. In fiscal 1999, R&D expenses increased to $257 million from $219 million recorded in fiscal 1998 while remaining flat at 17.8% as a percentage of sales.

During the third quarter of fiscal 2000, we acquired BCO Technologies plc (BCO), a company with operations in Belfast, Northern Ireland, in a cash-for-stock transaction valued at approximately $163 million. BCO is a leading supplier of silicon-on-insulator wafers used for fabricating micromechanical optical devices for optical switching and communications applications. In connection with this acquisition, we recorded approximately $158 million of goodwill. There was no in-process research and development write-off related to this acquisition. During the second quarter of fiscal 1999, we acquired two DSP tools companies, White Mountain DSP, Inc. of Nashua, New Hampshire and Edinburgh Portable Compilers Limited,

MANAGEMENT ANALYSIS

of Edinburgh, Scotland. The total cost of these acquisitions was approximately $23 million with additional cash consideration of up to a maximum of $10 million payable if the acquired companies achieve certain revenue and operational objectives. We have paid approximately $7 million of the additional cash consideration. In connection with these acquisitions, we recorded a charge of $5.1 million for the write-off of in-process research and development.

SELLING, MARKETING, GENERAL & ADMINISTRATIVE EXPENSES (DOLLARS IN MILLIONS)



Selling, marketing, general and administrative (SMG&A) expenses were $293 million in fiscal 2000, an increase of $83 million from the $210 million recorded in fiscal 1999. As a percentage of sales, SMG&A decreased from 14.5% for fiscal 1999 to 11.4% for fiscal 2000 as a result of the significant growth in revenue. In fiscal 1999, SMG&A expenses increased $3 million from $207 million recorded in fiscal 1998. As a percentage of sales, SMG&A decreased from 16.9% in fiscal 1998 to 14.5% in fiscal 1999 as a result of increased sales and continued control over spending.

Our operating income was $767 million, or 29.8% of sales, for fiscal 2000, a $524 million increase over the $243 million recorded in fiscal 1999. Including the impact of the write-off of in-process research and development, our operating income was 16.7% of sales for fiscal 1999. Our operating income for fiscal 1998, including the impact of a $17 million restructuring charge and a $13 million net gain on the sale of our disk drive IC business in fiscal 1998, was 12.8% of sales.

Our equity interest in WaferTech, LLC, a joint venture with Taiwan Semiconductor Manufacturing Company and other investors, resulted in a loss of $1.1 million in fiscal 1999, compared to a loss of $9.8 million in fiscal 1998. This change was the result of our completion of the sale in fiscal 1999 of approximately 78% of our equity ownership in WaferTech. As a result of this sale, our equity ownership in WaferTech was reduced from 18% to 4%. We sold 78% of our investment to other WaferTech partners in exchange for $105 million in cash, which was equal to 78% of the carrying value of the equity ownership at October 31, 1998. Subsequent to this sale, this investment was accounted for using the cost method.

Our effective income tax rate increased to 29.9% for fiscal 2000 from 23.6% in fiscal 1999 and 20.6% in fiscal 1998 due to increased profits in higher tax jurisdictions, principally the United States. Additionally, in fiscal 1998 we utilized $5.6 million of capital loss carryforwards for tax purposes, which reduced our valuation allowance from $5.6 million at November 1, 1997 to $0 at October 31, 1998.

In the fourth quarter of fiscal 1998, we changed our accounting method for recognizing revenue on all shipments to international distributors and certain shipments to domestic distributors. The change was made with an effective date of November 2, 1997 (the beginning of fiscal 1998). Prior to the change we had historically deferred revenue on most shipments made to domestic distributors until the products were resold by the distributors to end users, but recognized revenue on shipments to international distributors and certain shipments to domestic distributors upon shipment to the distributors, net of appropriate reserves for returns and allowances. As a result of this accounting change, revenue recognition on shipments to all distributors worldwide is deferred until the products are resold to the end users. We believe that deferral of revenue and related gross margin on shipments to distributors until the product is shipped by the distributors is a more meaningful measurement of results of operations because it better conforms to the substance of the transaction considering the changing business environment in the international marketplace; is consistent with industry practice; and will, accordingly, better focus the entire organization on sales to end users and, therefore, is a preferable method of accounting. The cumulative effect in prior years of the change in accounting principle was a charge of approximately $37 million (net of $20 million of income taxes) or $0.11 per diluted share.

Net income increased to $607 million, or 23.6% of sales, in fiscal 2000 from $197 million, or 13.6% of sales, in fiscal 1999. Diluted earnings per share for fiscal 2000 was $1.59. For fiscal 1999, net income increased 65% before the fiscal 1998 change in accounting principle, and 139% after the change in accounting principle, to $197 million, and diluted earnings per share was $0.55. For fiscal 1998, net income before the cumulative effect of the change in accounting principle was $119 million,

MANAGEMENT ANALYSIS

and diluted earnings per share was $0.36. Net income after the cumulative effect of the change in accounting principle was $82 million for fiscal 1998, and diluted earnings per share was $0.25.

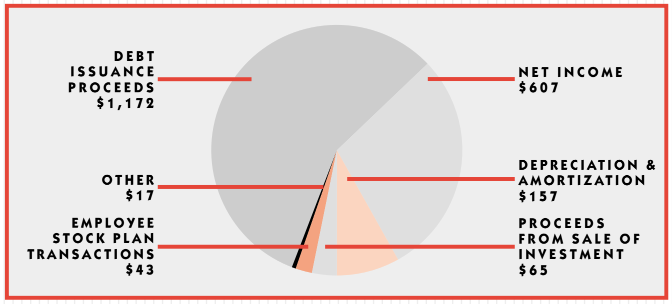
In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, (FAS 133), "Accounting for Derivative Instruments and Hedging Activities." This statement provides a comprehensive and consistent standard for the recognition and measurement of derivatives and hedging activities. In July 1999, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 137, which deferred the effective date of FAS 133 for one year. In June 2000, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 138, (FAS 138), "Accounting for Certain Derivative Instruments and Certain Hedging Activities—an amendment to FASB Statement No 133." This statement amended certain provisions of FAS 133. Accordingly, we will adopt FAS 133, as amended by FAS 138, effective the first quarter of fiscal 2001. FAS 133 requires that an entity recognize all derivatives as either assets or liabilities and measure such instruments at fair market value. Under certain circumstances, a portion of the derivative's gain or loss is initially reported as a component of comprehensive income until the hedged transaction affects earnings. For a derivative not designated as a hedging instrument, the gain or loss is recognized in income in the period of change. The provisions of FAS 133 allow for greater flexibility in our choice of derivative instruments. As a result, upon adoption, we will no longer use foreign currency option contracts to hedge our anticipated foreign currency sales transactions. Based upon our derivative positions at October 28, 2000, we estimate that upon adoption we will record a reduction of approximately $5 million in other comprehensive income as the cumulative effect of an accounting change.

In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin 101, (SAB 101), "Revenue Recognition in Financial Statements." SAB 101 summarizes the application of generally accepted accounting principles to revenue recognition in financial statements. We are required to adopt this standard in the fourth quarter of fiscal 2001 and do not expect SAB 101 to have a material effect on the results of our operations or financial position.

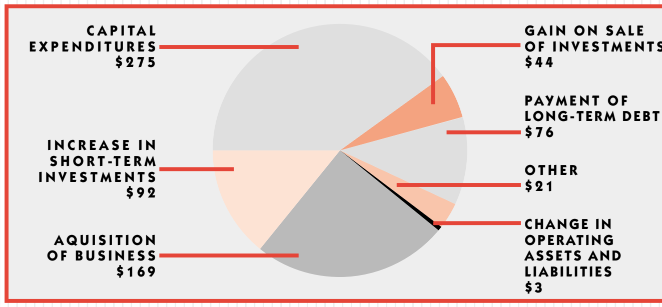
The impact of inflation on our business during the past three years has not been significant.

LIQUIDITY AND CAPITAL RESOURCES

SOURCES OF CASH – $2,061
(DOLLARS IN MILLIONS)



USES OF CASH – $680
(DOLLARS IN MILLIONS)



At October 28, 2000, we had $2,235 million of cash, cash equivalents and short-term investments compared to $762 million at October 30, 1999. The $1,473 million increase in cash, cash equivalents and short-term investments was primarily due to operating cash inflows of $705 million (27% of fiscal 2000 sales) and $1,172 million of proceeds from the issuance of long-term debt offset by $275 million of capital spending and $169 million of acquisition-related spending. Our operating activities generated net cash of $442 million, or 30% of sales in fiscal 1999. Investing activities used $456 million in fiscal 2000 and $358 million in fiscal 1999, while financing activities generated $1,130 million in fiscal 2000 and $7 million in fiscal 1999. Excluding the net proceeds from the issuance of $1,200 million of long-term debt in fiscal 2000, our primary source of funds in fiscal 2000 and fiscal 1999 was net cash generated by operations.

Accounts receivable of $464 million at the end of fiscal 2000 increased $203 million or 78% from $261 million at the end of fiscal 1999. This increase resulted principally from a $375 million increase in sales from the fourth quarter of fiscal 1999 to the fourth quarter of fiscal 2000. Days sales outstanding improved from 56 at the end of the fourth quarter of fiscal 1999

MANAGEMENT ANALYSIS

to 52 at the end of the fourth quarter of fiscal 2000. As a percentage of annualized fourth quarter sales, accounts receivable was 14.4% at the end of fiscal 2000, down from 15.1% at the end of fiscal 1999.

Inventories increased $83 million, or 33%, from the prior year to $332 million at the end of fiscal 2000. Days cost of sales in inventory decreased by 20 days to 90 days as of the end of the fourth quarter of fiscal 2000. The increase in inventory in absolute dollar terms is attributable to production increases in response to increased demand for our products.

Net additions to property, plant and equipment of $275 million for fiscal 2000 were funded with a combination of cash on hand and cash generated from operations. Capital spending in fiscal 2000 increased substantially from the $78 million incurred in fiscal 1999. The increase in capital expenditures was attributable to the expansion of manufacturing capability to meet increased demand for our products. We currently plan to make capital expenditures of approximately $450 million in fiscal 2001. Depreciation expense is expected to increase to $190 million in fiscal 2001.

As reported under "Results of Operations," during the third quarter of fiscal 2000, we acquired BCO Technologies plc (BCO), a company with operations in Belfast, Northern Ireland, in a cash-for-stock transaction valued at approximately $163 million. During the second quarter of fiscal 1999, we acquired two DSP tools companies, White Mountain DSP, Inc. of Nashua, New Hampshire and Edinburgh Portable Compilers Limited, of Edinburgh, Scotland. The total cost of these acquisitions was approximately $21 million in cash and $2 million in our common stock, with additional cash consideration of up to a maximum of $10 million payable if the acquired companies achieve certain revenue and operational objectives. These acquisitions were accounted for as purchases, and the excess of the purchase price over the fair value of assets acquired was allocated to existing technology, workforce in place, tradenames and goodwill, which are being amortized over periods ranging from six to ten years. In connection with these acquisitions, we recorded a charge of $5.1 million for the write-off of in-process research and development.

Subsequent to our fiscal year ended October 28, 2000, we announced several acquisitions. We acquired all of the common stock of ChipLogic, Inc., of Santa Clara, California, in exchange for approximately 1.65 million shares of our common stock. This transaction is valued at approximately $86 million. We also acquired four other companies for approximately $50 million, including contingent consideration. All of these transactions are expected to be accounted for as purchases.

In the third quarter of fiscal 2000, we sold our investment in Chartered Semiconductor Manufacturing Pte. Ltd. We received proceeds of approximately $65 million in cash and realized a pretax gain of approximately $44 million. The realized gain is included in other nonoperating income.

In the fourth quarter of 1999, we invested an additional $4 million in WaferTech. Subsequent to the year ended October 28, 2000, we sold our investment in WaferTech, LLC to Taiwan Semiconductor Manufacturing Company for approximately $61 million. In the first quarter of fiscal 2001 we will record a pretax realized gain on the sale of this investment of approximately $28 million.

In fiscal 2000, financing activities generated cash of $1,130 million. Of this total, issuance of common stock under stock purchase and stock option plans generated cash of $43 million, and proceeds from the issuance of long-term debt generated cash of $1,172 million. These increases were offset by $76 million of cash used for the repayment of variable rate borrowings and $8 million used for the payment of capital lease obligations.

During the fourth quarter of fiscal 2000, we issued $1,200 million of 4.75% Convertible Subordinated Notes due 2005 (2005 Notes), with semiannual interest payments on April 1 and October 1 of each year, commencing April 1, 2001. The 2005 Notes are convertible, at the option of the holder, into our common stock at any time unless previously redeemed or repurchased, at a conversion price of $129.78 per share, subject to adjustment in certain events. The net proceeds of the offering were $1,172 million after payment of the underwriting discount and expenses of the offering, which will be amortized over the term of the 2005 Notes. After the issuance of the 2005 Notes, our debt-to-equity ratio increased to 53%. As of March 11, 1999, we had converted $229,967,000 of the $230 million principal amount of our 3.50% Convertible Subordinated Notes due 2000 (2000 Notes) into an aggregate of 10,983,163 shares of our common stock, and the remaining 2000 Notes were redeemed by a cash payment of $33,000. As a result

MANAGEMENT ANALYSIS

of this conversion, our debt-to-equity ratio was reduced to 7% at the end of fiscal 1999 as compared to 31% at the end of the prior year.

At October 28, 2000, our principal sources of liquidity were $2,235 million of cash and cash equivalents and short-term investments.

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

QUALITATIVE AND QUANTITATIVE DISCLOSURE ABOUT MARKET RISK

We have fixed rate debt obligations and related interest rate swap and cap agreements. An increase in interest rates would not significantly increase interest expense due to the fixed nature of our debt obligations. Because of the size and structure of these obligations, a 100 basis point increase in interest rates would not result in a material change in our interest expense or the fair value of the debt obligations and related interest rate swap and cap agreements for fiscal 2000 and fiscal 1999. The fair value of our investment portfolio or related interest income would not be significantly impacted by either a 100 basis point increase or decrease in interest rates in fiscal 2000 and fiscal 1999 due mainly to the short-term nature of the major portion of our investment portfolio and the relative insignificance of interest income to the consolidated pretax income, respectively.

As more fully described in Note 2 (i) in the Notes to our Consolidated Financial Statements, we regularly hedge our non-U.S. dollar-based exposures by entering into forward exchange contracts and currency swap agreements. The terms of these contracts are for periods matching the duration of the underlying exposure and generally range from three months up to one year. The short-term nature of these contracts has resulted in these instruments having insignificant fair values at October 28, 2000 and October 30, 1999. Our largest foreign currency exposure is against the Japanese yen, primarily because Japan has a higher proportion of local currency denominated sales and fewer offsetting local currency denominated expenses. Relative to foreign currency exposures existing at October 28, 2000 and October 30, 1999, a 10% unfavorable movement in foreign exchange rates would not expose us to significant losses in earnings or cash flows or significantly diminish the fair value of our foreign currency financial instruments, primarily due to the short lives of the affected financial instruments that effectively hedge substantially all of our year-end exposures against fluctuations in foreign currency exchange rates. The calculation assumes that each exchange rate would change in the same direction relative to the U.S. dollar. In addition to the direct effects of changes in exchange rates, such changes typically affect the volume of sales or the foreign currency sales price as competitors' products become more or less attractive. Our sensitivity analysis of the effects of changes in foreign currency exchange rates does not factor in a potential change in sales levels or local currency selling prices.

LITIGATION

For information concerning certain pending litigation, see Note 11 of the Notes to our Consolidated Financial Statements.

FORWARD-LOOKING STATEMENTS

The "Management Analysis" and other sections of this report contain forward-looking statements that are based on current expectations, estimates, forecasts and projections about the industry and markets in which we operate, management's beliefs and assumptions made by management. In addition, other written or oral statements that constitute forward-looking statements may be made by or on our behalf. Words such as "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates," variations of such words and similar expressions are intended to identify such forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict. (See "Factors That May Affect Future Results" below.) Therefore, actual outcomes and results may differ materially from what is expressed or forecast in such forward-looking statements. We undertake no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

MANAGEMENT ANALYSIS

FACTORS THAT MAY AFFECT FUTURE RESULTS

We may experience material fluctuations in future operating results.

Our future operating results are difficult to predict and may be affected by a number of factors including the timing of new product announcements or introductions by us and our competitors, competitive pricing pressures, fluctuations in manufacturing yields, adequate availability of wafers and manufacturing capacity, the effects of adverse changes in overall economic conditions, the risk that our backlog could decline significantly, our ability to continue hiring engineers and other qualified employees needed to meet the expected demands of our largest customers and changes in product mix and economic conditions in the United States and international markets. In addition, the semiconductor market has historically been cyclical and subject to significant economic downturns at various times. Our business is subject to rapid technological changes and there can be no assurance, depending on the mix of future business, that products stocked in inventory will not be rendered obsolete before we ship them. As a result of these and other factors, there can be no assurance that we will not experience material fluctuations in future operating results on a quarterly or annual basis.

Our future success depends upon our ability to develop and market new products and enter new markets.

Our success depends in part on our continued ability to develop and market new products. There can be no assurance that we will be able to develop and introduce new products in a timely manner or that new products, if developed, will achieve market acceptance. In addition, our growth is dependent on our continued ability to penetrate new markets where we have limited experience and competition is intense. There can be no assurance that the markets we serve will grow in the future; that our existing and new products will meet the requirements of these markets; that our products will achieve customer acceptance in these markets; that competitors will not force prices to an unacceptably low level or take market share from us; or that we can achieve or maintain profits in these markets. Also, some of our customers in these markets are less well established, which could subject us to increased credit risk.

We may not be able to compete successfully in the semiconductor industry in the future.

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

We may not be able to satisfy increasing demand for our products, and increased production may lead to overcapacity and lower prices.

The cyclical nature of the semiconductor industry has resulted in sustained or short-term periods when demand for our products has increased or decreased rapidly. We and the semiconductor industry have experienced a period of rapid increases in demand during the past two fiscal years. We have increased our manufacturing capacity over the past three years through both expansion of our production facilities and increased access to third-party foundries. However, we cannot be sure that we will not encounter unanticipated production problems at either our own facilities or at third-party foundries, or that the increased capacity will be sufficient to satisfy demand for our products. We believe that other semiconductor manufacturers have expanded their production capacity over the past several years. This expansion by us and our competitors could lead to overcapacity in our target markets, which could lead to price erosion that would adversely affect our operating results.

We rely on third-party subcontractors and manufacturers for some industry-standard wafers and therefore cannot control their availability or conditions of supply.

We rely, and plan to continue to rely, on assembly and test subcontractors and on third-party wafer fabricators to supply most of our wafers that can be manufactured using industry-standard digital processes. This reliance involves several risks, including reduced control over delivery schedules, manufacturing yields and costs.

MANAGEMENT ANALYSIS

Our revenues may not increase enough to offset the expense of additional capacity.

Our capacity additions resulted in a significant increase in operating expenses. If revenue levels do not increase enough to offset these additional expense levels, our future operating results could be adversely affected. In addition, asset values could be impaired if the additional capacity is underutilized for an extended period of time.

We rely on manufacturing capacity located in geologically unstable areas, which could affect the availability of supplies and services.

We and many companies in the semiconductor industry rely on internal manufacturing capacity located in California and Taiwan as well as wafer fabrication foundries in Taiwan and other sub-contractors in geologically unstable locations around the world. This reliance involves risks associated with the impact of earthquakes on us and the semiconductor industry, including temporary loss of capacity, availability and cost of key raw materials and equipment, and availability of key services including transport.

We are exposed to economic and political risks through our significant international operations.

During fiscal 2000, 55% of our revenues were derived from customers in international markets. We have manufacturing facilities outside the United States, in Ireland, the United Kingdom, the Philippines and Taiwan. In addition to being exposed to the ongoing economic cycles in the semiconductor industry, we are also subject to the economic and political risks inherent in international operations, including the risks associated with the ongoing uncertainties in many developing economies around the world. These risks include air transportation disruptions, expropriation, currency controls and changes in currency exchange rates, tax and tariff rates and freight rates. Although we engage in hedging transactions to reduce our exposure to currency exchange rate fluctuations, there can be no assurance that our competitive position will not be adversely affected by changes in the exchange rate of the U.S. dollar against other currencies.

We are involved in frequent litigation regarding intellectual property rights, which could be costly to undertake and could require us to redesign products or pay significant royalties.

The semiconductor industry is characterized by frequent claims and litigation involving patent and other intellectual property rights. We have from time to time received, and may in the future receive, claims from third parties asserting that our products or processes infringe their patents or other intellectual property rights. In the event a third party makes a valid intellectual property claim and a license is not available on commercially reasonable terms, we could be forced either to redesign or to stop production of products incorporating that intellectual property, and our operating results could be materially and adversely affected. Litigation may be necessary to enforce patents or other of our intellectual property rights or to defend us against claims of infringement, and this litigation can be costly and divert the attention of key personnel. See Note 11 of the Notes to our Consolidated Financial Statements for the fiscal year ended October 28, 2000 for information concerning pending litigation involving us. An adverse outcome in this litigation could have a material adverse effect on our consolidated financial position or on our consolidated results of operations or cash flows in the period in which the litigation is resolved.

Leverage and debt service obligations may adversely affect our cash flow.

We have a substantial amount of outstanding indebtedness. There is the possibility that we may be unable to generate cash sufficient to pay the principal of, interest on, and other amounts due in respect of, this indebtedness. Our substantial leverage could have significant negative consequences. This substantial leverage could increase our vulnerability to general adverse economic and industry conditions. It may require the dedication of a substantial portion of our expected cash flow from operations to service our indebtedness, thereby reducing the amount of our expected cash flow available for other purposes, including capital expenditures. It may also limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate.

CONSOLIDATED STATEMENTS OF INCOME

Years ended October 28, 2000,
October 30, 1999 and October 31, 1998
(thousands, except per share amounts)

	2000	1999	1998
Revenue:			
Net sales	$ 2,577,547	$ 1,450,379	$ 1,230,571
Costs and Expenses:			
Cost of sales	1,116,520	735,643	642,085
Gross margin	1,461,027	714,736	588,486
Operating expenses:			
Research and development	400,566	257,039	219,354
Purchased in-process research and development	-	5,140	-
Selling, marketing, general and administrative	293,364	209,639	207,487
Restructuring charge	-	-	17,000
Gain on sale of business	-	-	(13,100)
	693,930	471,818	430,741
Operating income	767,097	242,918	157,745
Equity in loss of WaferTech	-	1,149	9,780
Nonoperating (income) expenses:			
Interest expense	5,841	10,146	13,287
Interest income	(63,430)	(26,726)	(16,838)
Other	(41,025)	809	1,057
	(98,614)	(15,771)	(2,494)
Earnings:			
Income before income taxes	865,711	257,540	150,459
Provision for income taxes:			
Payable currently	271,123	44,139	43,343
Deferred	(12,544)	16,582	(12,372)
	258,579	60,721	30,971
Net income before cumulative effect of change in accounting principle	607,132	196,819	119,488
Cumulative effect of change in accounting principle, net of $20 million of income taxes	-	-	(37,080)
Net income after cumulative effect of change in accounting principle	$ 607,132	$ 196,819	$ 82,408
Shares used to compute earnings per share—Basic	353,363	336,482	323,148
Shares used to compute earnings per share—Diluted	381,157	362,904	355,750
Earnings per share before cumulative effect of change in accounting principle:			
Earnings per share—Basic	$ 1.71	$ 0.58	$ 0.37
Earnings per share—Diluted	$ 1.59	$ 0.55	$ 0.36
Earnings per share after cumulative effect of change in accounting principle:			
Earnings per share—Basic	$ 1.71	$ 0.58	$ 0.26
Earnings per share—Diluted	$ 1.59	$ 0.55	$ 0.25

See accompanying notes.

CONSOLIDATED BALANCE SHEETS

October 28, 2000 and October 30, 1999
(thousands, except share amounts)

	2000	1999
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 1,736,421	$ 355,891
Short-term investments	498,844	406,553
Accounts receivable less allowances of $13,156 ($14,238 in 1999)	463,912	260,871
Inventories	332,094	248,936
Deferred tax assets	108,989	89,780
Prepaid expenses and other current assets	27,754	17,079
Total current assets	3,168,014	1,379,110
Property, Plant and Equipment, at Cost:		
Land and buildings	238,550	166,130
Machinery and equipment	1,260,572	1,088,939
Office equipment	86,930	74,530
Leasehold improvements	120,710	108,530
	1,706,762	1,438,129
Less accumulated depreciation and amortization	927,536	795,323
Net property, plant and equipment	779,226	642,806
Other Assets:		
Investments	217,755	119,301
Intangible assets, net	192,698	30,563
Other assets	53,644	46,574
Total other assets	464,097	196,438
	$ 4,411,337	$ 2,218,354
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Short-term borrowings and current portion of long-term debt and obligations under capital leases	$ 15,690	$ 97,061
Accounts payable	213,196	103,368
Deferred income on shipments to distributors	140,369	100,788
Income taxes payable	86,625	66,761
Accrued liabilities	194,017	111,285
Total current liabilities	649,897	479,263
Noncurrent Liabilities:		
Long-term debt and obligations under capital leases	1,212,960	16,214
Deferred income taxes	51,205	40,002
Other noncurrent liabilities	193,625	66,844
Total noncurrent liabilities	1,457,790	123,060
Commitments and Contingencies		
Stockholders' Equity:		
Preferred stock, $1.00 par value, 471,934 shares authorized, none outstanding	-	-
Common stock, $0.16 2/3 par value, 600,000,000 shares authorized, 357,969,010 shares issued (178,049,189 in 1999)	59,663	29,675
Capital in excess of par value, net of deferred compensation of $3,980 ($6,211 in 1999)	526,820	523,106
Retained earnings	1,717,943	1,110,811
Accumulated other comprehensive income	2,841	12,209
	2,307,267	1,675,801
Less 45,186 shares in treasury, at cost (3,161,774 in 1999)	3,617	59,770
Total stockholders' equity	2,303,650	1,616,031
	$ 4,411,337	$ 2,218,354

See accompanying notes.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Years ended October 28, 2000, October 30, 1999 and October 31, 1998 *(thousands)*	Common Stock Shares	Common Stock Amount	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Income*	Treasury Stock Shares	Treasury Stock Amount
Balance, November 1, 1997	161,941	$26,991	$223,885	$ 831,584	$ 6,724	(35)	$ (1,054)
Activity in Fiscal 1998:							
Net income—1998				82,408			
Issuance of stock under stock plans and other, net of repurchases	2,152	358	8,738			652	17,299
Compensation recognized under Restricted Stock Plan			2,918				
Tax benefit on exercise of non-qualified stock options and disqualifying dispositions under stock plans			13,429				
Repurchase of common stock						(4,400)	(84,192)
Translation adjustment					(699)		
Balance, October 31, 1998	164,093	27,349	248,970	913,992	6,025	(3,783)	(67,947)
Activity in Fiscal 1999:							
Net income—1999				196,819			
Issuance of stock under stock plans and other, net of repurchases	2,974	496	28,159			621	8,177
Conversion of 3.50% Subordinated notes	10,982	1,830	228,074				
Compensation recognized under Restricted Stock Plan			2,799				
Tax benefit on exercise of non-qualified stock options and disqualifying dispositions under stock plans			15,104				
Securities valuation adjustment					6,629		
Translation adjustment					(445)		
Balance, October 30, 1999	178,049	29,675	523,106	1,110,811	12,209	(3,162)	(59,770)
Activity in Fiscal 2000:							
Net income—2000				607,132			
Issuance of stock under stock plans and other, net of repurchases	6,205	1,033	52,148			(93)	(8,850)
Compensation recognized under Restricted Stock Plan			2,231				
Tax benefit on exercise of non-qualified stock options and disqualifying dispositions under stock plans			43,566				
Two-for-one stock split	173,715	28,955	(94,231)			3,210	65,003
Securities valuation adjustment					(6,629)		
Translation adjustment					(2,739)		
Balance, October 28, 2000	357,969	$59,663	$526,820	$1,717,943	$ 2,841	(45)	$ (3,617)

* Comprehensive income, i.e., net income plus other comprehensive income, totaled $598 million in 2000, $203 million in 1999 and $82 million in 1998.

See accompanying notes.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended October 28, 2000, October 30, 1999 and October 31, 1998 *(thousands)*	2000	1999	1998
Operations			
Cash flows from operations:			
Net income	$ 607,132	$ 196,819	$ 82,408
Adjustments to reconcile net income to net cash provided by operations:			
Cumulative effect of change in accounting principle, net of $20 million of income taxes	-	-	37,080
Depreciation and amortization	156,671	142,598	127,560
Gain on sale of investments	(43,857)	-	-
Noncash portion of restructuring costs	-	-	10,000
Gain on sale of business	-	-	(13,100)
Purchased in-process research and development	-	5,140	-
Equity in loss of WaferTech, net of dividends	-	1,149	10,907
Deferred income taxes	(12,544)	16,582	(12,372)
Change in operating assets and liabilities:			
(Increase) decrease in accounts receivable	(213,696)	(55,980)	50,603
(Increase) decrease in inventories	(82,321)	28,424	(48,883)
(Increase) decrease in prepaid expenses and other current assets	(9,706)	4,292	698
Increase in investments—trading	(123,165)	(28,098)	(7,319)
Increase (decrease) in accounts payable, deferred income and accrued liabilities	233,408	57,096	(31,840)
Increase in income taxes payable	20,204	27,774	14,476
Increase in other liabilities	172,379	46,629	17,896
Total adjustments	97,373	245,606	155,706
Net cash provided by operations	704,505	442,425	238,114
Investments			
Cash flows from investments:			
Additions to property, plant and equipment, net	(274,837)	(77,500)	(166,911)
Purchase of short-term investments available-for-sale	(868,394)	(628,823)	(143,449)
Maturities of short-term investments available-for-sale	776,103	263,845	152,880
Proceeds from sale of investment	64,641	-	-
Change in long-term investments	348	101,501	(56,110)
Payments for acquisitions, net of cash acquired	(169,270)	(20,499)	-
Proceeds from sale of business	-	-	27,000
Decrease (increase) in other assets	15,192	3,435	(370)
Net cash used for investments	(456,217)	(358,041)	(186,960)
Financing Activities			
Cash flows from financing activities:			
Proceeds from issuance of long-term debt	1,172,135	-	-
Repurchase of common stock	-	-	(84,192)
Proceeds from employee stock plans	42,864	19,050	14,209
Payments on capital lease obligations	(8,293)	(14,109)	(11,640)
Proceeds from equipment financing	-	-	6,094
Net (decrease) increase in variable rate borrowings	(76,416)	1,776	60
Net cash provided by (used for) financing activities	1,130,290	6,717	(75,469)
Effect of exchange rate changes on cash	1,952	1,459	(1,955)
Net increase (decrease) in cash and cash equivalents	1,380,530	92,560	(26,270)
Cash and cash equivalents at beginning of year	355,891	263,331	289,601
Cash and cash equivalents at end of year	$ 1,736,421	$ 355,891	$ 263,331

See accompanying notes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended October 28, 2000, October 30, 1999 and October 31, 1998
(all tabular amounts in thousands except per share amounts)

1 | DESCRIPTION OF BUSINESS

Analog Devices, Inc. (Analog, ADI or the Company) is a world leader in the design, manufacture and marketing of high-performance analog, mixed-signal and digital signal processing (DSP) integrated circuits (ICs) used in signal processing applications.

As of the end of fiscal 2000, approximately 45% of Analog's revenues came from the communications market, making it the Company's largest and fastest-growing served market. Communications applications include wireless handsets and base stations, as well as products used for high-speed access to the Internet, including ICs used in ADSL and cable modems and central office networking equipment.

Analog serves the PC market with products that monitor and manage power usage, process signals used in flat panel displays and multimedia projectors and enable PCs to provide CD-quality audio. Analog also serves the high-end consumer market with ICs used in products such as digital cameras and camcorders, DVD players and surround sound audio systems. Analog provides a broad array of products to the industrial market, including products for automatic test equipment and for the digital speed control of AC motors.

2 | SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a Principles of Consolidation

The consolidated financial statements include the accounts of the Company and all of its wholly owned subsidiaries. Upon consolidation, all significant intercompany accounts and transactions are eliminated. The Company's fiscal year ends on the 52-week or 53-week period ending on the Saturday closest to the last day in October. Fiscal years 2000, 1999 and 1998 were each 52-week years.

Certain amounts reported in previous years have been reclassified to conform to the fiscal 2000 presentation, such reclassifications were immaterial.

b Cash, Cash Equivalents and Investments

Cash and cash equivalents are highly liquid investments with insignificant interest rate risk and maturities of three months or less at the time of acquisition. Investments with maturities between three and twelve months at time of acquisition are considered short-term investments. Cash, cash equivalents and short-term investments consist primarily of commercial paper and government agency discount notes, but also include certificates of deposit, bank time deposits, institutional money market funds and bankers' acceptances. Long-term investments consist of mutual funds, commercial paper and bank money market funds that are acquired to generate returns that offset changes in certain liabilities related to deferred compensation arrangements, as well as equity securities.

The Company classifies its investments in readily marketable debt and equity securities as "held-to-maturity," "available-for-sale" or "trading" at the time of purchase and such designation is evaluated as of each balance sheet date. Held-to-maturity securities, which are carried at amortized cost, include only those securities the Company has the positive intent and ability to hold to maturity. Securities, such as bank time deposits, which by their nature are typically held to maturity, are classified as such. The Company's other readily marketable investments are classified as either available-for-sale or trading. Available-for-sale securities are carried at fair value with unrealized gains and losses, net of related tax, if any, reported as a separate component of stockholders' equity. Realized gains and losses, as well as interest, dividends and capital gains distributions on all securities, are included in earnings.

Cash equivalents and short-term investments classified as available-for-sale were $2,167 million and $707 million at October 28, 2000 and October 30, 1999, respectively and those classified as held-to-maturity were $7 million and $28 million at October 28, 2000 and October 30, 1999, respectively. All of these securities have contractual maturities of twelve months or less at time of acquisition. Because of the short term to maturity, and hence relative price insensitivity to changes in market interest rates, amortized cost approximates fair value for all of these securities. As such, no realized or unrealized gains or losses were recorded during each of these years.

Long-term investments classified as trading were $182 million and $59 million at October 28, 2000 and October 30, 1999, respectively and were based on published market quotes on October 27, 2000 and October 29, 1999. Gross realized and unrealized gains and losses from trading securities were not material in fiscal 2000, fiscal 1999 and fiscal 1998. There was approximately $0 and

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(continued)

$27 million at October 28, 2000 and October 30, 1999, respectively, of long-term investments classified as available-for-sale. Gross realized gains on available-for-sale investments were $44 million in fiscal 2000 and $0 in fiscal 1999. Gross unrealized gains were not material in fiscal 2000 and fiscal 1999. There were no long-term investments classified as held-to-maturity at October 28, 2000 and October 30, 1999.

c Supplemental Cash Flow Statement Information

	2000	1999	1998
Cash paid during the fiscal year for:			
Income Taxes	$208,441	$ 19,582	$ 23,582
Interest	$ 4,039	$ 10,808	$ 15,535

The Company's non-cash financing activities in fiscal 1999 consisted solely of the conversion of its 3.50% Convertible Subordinated Notes into common stock as described in Note 9.

d Inventories

Inventories are valued at the lower of cost (first-in, first-out method) or market. Inventories at October 28, 2000 and October 30, 1999 were as follows:

	2000	1999
Raw materials	$ 17,505	$ 13,735
Work in process	179,918	150,427
Finished goods	134,671	84,774
Total inventories	$332,094	$248,936

e Property, Plant and Equipment

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

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

Total depreciation and amortization of property, plant and equipment was $143 million, $139 million and $125 million in fiscal 2000, 1999 and 1998, respectively. Property, plant and equipment included $82 million and $75 million of capitalized leases in fiscal 2000 and 1999, net of $49 million and $36 million respectively, of accumulated depreciation.

f Goodwill and Other Acquisition-related Intangibles

	Amortization Lives	2000	1999
Goodwill	5-10 Years	$181,219	$ 16,685
Other intangibles	5-10 Years	11,479	13,878
Total		$192,698	$ 30,563

Other intangibles include items such as acquired trained workforce and customer base. Goodwill and other intangibles are evaluated for impairment based on the related estimated undiscounted cash flows.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(continued)

The balances shown are net of total accumulated amortization of $35 million and $22 million as of October 28, 2000 and October 30, 1999, respectively. Amortization of goodwill and other acquisition-related intangibles was $13 million, $4 million and $3 million for fiscal 2000, 1999 and 1998, respectively.

g Grant Accounting

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

h Translation of Foreign Currencies

The functional currency for the Company's foreign sales operations is the applicable local currency. Gains and losses resulting from translation of these foreign currencies into U.S. dollars are accumulated in a separate component of stockholders' equity. Transaction gains and losses are included in income currently, including those at the Company's principal foreign manufacturing operations where the functional currency is the U.S. dollar. Foreign currency transaction gains or losses included in other expenses, net, were not material in fiscal 2000, 1999 and 1998.

i Foreign Currency Instruments and Interest Rate Agreements

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

Forward foreign exchange contracts are utilized to manage the risk associated with currency fluctuations on certain firm sales and purchase commitments denominated in foreign currencies and certain non-U.S. dollar denominated asset and liability positions. The Company's forward foreign exchange contracts are primarily denominated in Japanese yen and certain European currencies and are for periods consistent with the terms of the underlying transactions, generally one year or less. The forward foreign exchange contracts that relate to firm foreign currency sales and purchase commitments are designated and effective as hedges of firm, identifiable foreign currency commitments, and accordingly, the gains and losses resulting from the impact of currency exchange rate movements on these contracts are not recognized in operations until the underlying hedged transactions are recognized. Upon recognition, such gains and losses are recorded in operations as an adjustment to the carrying amount of the underlying transactions in the period in which these transactions are recognized. Unrealized gains and losses resulting from the impact of currency exchange rate movements on forward foreign exchange contracts designated to offset certain non-U.S. dollar denominated assets and liabilities are recognized as other income or expense in the period in which the exchange rates change and offset the foreign currency gains and losses on the underlying exposures being hedged. The contract amounts of forward foreign exchange contracts outstanding were $277 million and $178 million at October 28, 2000 and October 30, 1999, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(continued)

The Company also may periodically enter into foreign currency option contracts to offset certain probable anticipated, but not firmly committed, foreign currency transactions related to the sale of product during the ensuing nine months. When the dollar strengthens significantly against the foreign currencies, the decline in value of future currency cash flows is partially offset by the gains in value of the purchased currency options designated as hedges. Conversely, when the dollar weakens, the increase in value of future foreign currency cash flows is reduced only by the premium paid to acquire the options. The Company's foreign currency option contracts are primarily denominated in Japanese yen and generally have maturities that do not exceed six months. These foreign currency option contracts are designated and effective as hedges of anticipated foreign currency sales transactions, and accordingly, the premium cost and any realized gains associated with these contracts are deferred and included in the consolidated balance sheet as prepaid expenses and accrued liabilities, respectively, until such time as the underlying sales transactions are recognized. Upon recognition, such premium costs and any realized gains are recorded in sales as a component of the underlying sales transactions being hedged. The contract amounts of foreign currency option contracts outstanding were $7 million and $39 million, at October 28, 2000 and October 30, 1999, respectively. Deferred gains or losses attributable to foreign currency option contracts were not material at October 28, 2000 and October 30, 1999.

The Company uses currency swap agreements to hedge the value of its net investment in certain of its foreign subsidiaries. Realized and unrealized gains and losses on such agreements related to the net foreign investment being hedged are recognized in the cumulative translation adjustment component of stockholders' equity, with the related amounts due to or from counterparties included in accrued liabilities or other current assets. The contract amount of currency swap agreements outstanding, which were principally denominated in Japanese yen, was $0 at October 28, 2000, and $10 million at October 30, 1999.

The Company enters into interest rate swap and cap agreements to manage its exposure to interest rate movements by effectively converting a portion of its debt and certain financing arrangements from fixed to variable rates. Maturity dates of interest rate swap and cap agreements generally match those of the underlying debt or financing arrangements. These agreements, which have maturities of up to seven years, involve the exchange of fixed rate payments for variable rate payments without the exchange of the underlying principal amounts. Variable rates are based on six-month U.S. dollar LIBOR and are reset on a semiannual basis. The differential between fixed and variable rates to be paid or received is accrued as interest rates change in accordance with the agreements and recognized over the life of the agreements as an adjustment to interest expense. The notional principal amounts of interest rate swap and cap agreements outstanding were approximately $10 million and $50 million at October 28, 2000 and October 30, 1999, respectively.

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(continued)

j Fair Values of Financial Instruments

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

	October 28, 2000		October 30, 1999	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets:				
Cash and cash equivalents	$ 1,736,421	$ 1,736,421	$ 355,891	$ 355,891
Short-term investments	498,844	498,844	406,553	406,553
Long-term investments	181,751	181,751	85,999	85,999
Liabilities:				
Short-term borrowings	(5,752)	(5,752)	(2,344)	(2,344)
Long-term debt, including current portion	(1,200,261)	(1,101,261)	(80,000)	(79,978)
Foreign Currency Instruments and Interest Rate Agreements:				
Interest rate swap and cap agreements	(33)	(62)	13	(36)
Forward foreign currency exchange contracts	(3,555)	(3,817)	(4,260)	(7,658)
Foreign currency option contracts	75	22	340	220
Currency swap agreements	0	0	375	325

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

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

Long-term investments – The fair value of long-term investments is based on quoted market values.

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

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

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

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

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

k 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 and disclosure of contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Such estimates relate to the useful lives of fixed assets, allowances for doubtful accounts and customer returns, inventory reserves, potential reserves relating to litigation matters, accrued liabilities and other reserves. Actual results could differ from those estimates, and such differences may be material to the financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(continued)

l Concentrations of Credit Risk

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

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

The Company sells its products to distributors and original equipment manufacturers involved in a variety of industries including industrial automation, instrumentation, military/aerospace and, to an increasing degree, communications, computers and peripherals, and high-performance consumer electronics. The Company has adopted credit policies and standards to accommodate growth in these markets. The Company performs continuing credit evaluations of its customers' financial condition and although the Company generally does not require collateral, letters of credit may be required from its customers in certain circumstances. Reserves are provided for estimated amounts of accounts receivable that may not be collected.

m Concentration of Other Risks

The semiconductor industry is characterized by rapid technological change, competitive pricing pressures and cyclical market patterns. The Company's financial results are affected by a wide variety of factors, including general economic conditions worldwide, economic conditions specific to the semiconductor industry, the timely implementation of new manufacturing technologies, the ability to safeguard patents and intellectual property in a rapidly evolving market and reliance on assembly and test subcontractors, third-party wafer fabricators and independent distributors. In addition, the semiconductor market has historically been cyclical and subject to significant economic downturns at various times. The Company is exposed to the risk of obsolescence of its inventory depending on the mix of future business. As a result, the Company may experience significant period-to-period fluctuations in future operating results due to the factors mentioned above or other factors.

n Revenue Recognition

Revenue from product sales to end users is recognized upon shipment. As further explained in Note 5, commencing in 1998, revenue on shipments to all distributors is deferred until products are resold by the distributors to end users. Prior to 1998, revenue on most shipments to domestic distributors was deferred until resale to end users because arrangements with these distributors included returns and price concessions that could not be reasonably estimated. Revenue on all shipments to international distributors and certain shipments to domestic distributors were recognized upon shipment to the distributor, with appropriate provision of reserves for returns and allowances.

o Comprehensive Income

Components of comprehensive income include net income and certain transactions that have generally been reported in the consolidated statement of shareholders' equity. Other comprehensive income is comprised of net income, currency translation adjustments and available-for-sale securities valuation adjustments.

p Income Taxes

Deferred tax assets and liabilities are determined based on the differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted income tax rates and laws that will be in effect when the temporary differences are expected to reverse. Additionally, deferred tax assets and liabilities are separated into current and noncurrent amounts based on the classification of the related assets and liabilities for financial reporting purposes.

q Earnings Per Share of Common Stock

Basic earnings per share is computed based only on the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed using the weighted average number of common shares outstanding during the period, plus the dilutive effect of future issues of common stock relating to stock option programs and convertible debt financing. In calculating diluted earnings per share, the dilutive effect of stock options is computed using the average market price for the period.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

Shares related to convertible debt financing are excluded from the fiscal 2000 earnings per share calculation because the effect would be anti-dilutive. The following table sets forth the computation of basic and diluted earnings per share:

	2000	1999	1998
Basic:			
Income before cumulative effect of change in accounting principle	$607,132	$196,819	$119,488
Cumulative effect of change in accounting principle	-	-	(37,080)
Net income	$607,132	$196,819	$ 82,408
Weighted shares outstanding	353,363	336,482	323,148
Earnings per share:			
Income before cumulative effect of change in accounting principle	$ 1.71	$ 0.58	$ 0.37
Cumulative effect of change in accounting principle	-	-	(0.11)
Net income	$ 1.71	$ 0.58	$ 0.26
Diluted:			
Income before cumulative effect of change in accounting principle	$607,132	$196,819	$119,488
Interest related to convertible subordinated notes, net of tax	-	1,906	5,686
Income before cumulative effect of change in accounting principle including the effect of dilutive securities	607,132	198,725	125,174
Cumulative effect of change in accounting principle	-	-	(37,080)
Net income	$607,132	$198,725	$ 88,094
Weighted shares outstanding	353,363	336,482	323,148
Assumed exercise of common stock equivalents	27,794	18,822	10,634
Assumed conversion of subordinated notes	-	7,600	21,968
Weighted average common and common equivalent shares	381,157	362,904	355,750
Earnings per share:			
Income before cumulative effect of change in accounting principle	$ 1.59	$ 0.55	$ 0.36
Cumulative effect of change in accounting principle	-	-	(0.11)
Net income	$ 1.59	$ 0.55	$ 0.25

r Stock-Based Compensation

The Company grants stock options for a fixed number of shares to employees with an exercise price equal to the fair value of the shares at the date of grant. The Company accounts for stock option grants in accordance with APB Opinion No. 25, "Accounting for Stock Issued to Employees" and accordingly, recognizes no compensation expense for the stock option grants. The Company also grants restricted stock for a fixed number of shares to employees for nominal consideration. Compensation expense related to restricted stock awards is recorded ratably over the restriction period.

s New Accounting Standards

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, (FAS 133), "Accounting for Derivative Instruments and Hedging Activities." This statement provides a comprehensive and consistent standard for the recognition and measurement of derivatives and hedging activities. In July 1999, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 137, which deferred the effective date of FAS 133 for one year. In June 2000, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 138, (FAS 138), "Accounting for Certain Derivative Instruments and Certain Hedging Activities-an amendment to FASB Statement No 133." This statement amended certain provisions of FAS 133. Accordingly, we will adopt FAS 133, as amended by FAS 138, effective the first quarter of fiscal 2001.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(continued)

FAS 133 requires that an entity recognize all derivatives as either assets or liabilities and measure such instruments at fair market value. Under certain circumstances, a portion of the derivative's gain or loss is initially reported as a component of comprehensive income until the hedged transaction affects earnings. For a derivative not designated as a hedging instrument, the gain or loss is recognized in income in the period of change. The provisions of FAS 133 allow for greater flexibility in the choice of derivative instruments. As a result, upon adoption, the Company will no longer use foreign currency option contracts to hedge anticipated foreign currency sales transactions. Based upon the derivative positions at October 28, 2000, the Company estimates that upon adoption it will record a reduction of approximately $5 million in other comprehensive income as the cumulative effect of an accounting change.

In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin 101, (SAB 101), "Revenue Recognition in Financial Statements." SAB 101 summarizes the application of generally accepted accounting principles to revenue recognition in financial statements. The Company will adopt SAB 101 in the fourth quarter of fiscal 2001 and does not expect SAB 101 to have a material effect on its financial position or results of operations.

t Stock Split

On February 15, 2000, the Company's Board of Directors approved a 2-for-1 split of the Company's common stock, effected as a 100% stock dividend on March 15, 2000 by the distribution of one share of common stock for every share held on the record date of February 28, 2000. In connection with the stock split the number of common stock purchase rights that are associated with each share of common stock was reduced from one to one-half. All historical per share amounts in this report have been restated to reflect the split.

3 | ACQUISITIONS AND DISPOSITIONS

During the third quarter of fiscal 2000, the Company acquired BCO Technologies plc (BCO), a company with operations in Belfast, Northern Ireland, in a cash-for-stock transaction valued at approximately $163 million. The acquisition was accounted for as a purchase, and the excess of the purchase price over the fair value of the assets acquired was allocated to workforce in place and goodwill, which are being amortized on the straight-line basis over five years. In connection with the acquisition, the Company recorded approximately $158 million of goodwill. There was no in-process research and development write-off related to this acquisition.

During the second quarter of fiscal 1999, the Company acquired two DSP tools companies, White Mountain DSP, Inc. (WM) of Nashua, New Hampshire, and Edinburgh Portable Compilers Limited (EPC), of Edinburgh, Scotland. The total cost of these acquisitions was approximately $21 million in cash and $2 million in common stock of the Company, with additional cash consideration of up to a maximum of $10 million (to be accounted for as additional goodwill) payable if the acquired companies achieve certain revenue and operational objectives. Approximately $7 million of the contingent consideration has been paid. These acquisitions were accounted for as purchases, and the excess of the purchase price over the fair value of the assets acquired was allocated to existing technology, workforce in place, trade names and goodwill, which are being amortized on the straight-line basis over periods ranging from six to ten years. In connection with these acquisitions, the Company recorded a charge of $5.1 million representing the write-off of in-process research and development.

Pro forma results of operations for BCO, WM and EPC have not been provided herein as they were not material to the Company on either an individual or an aggregate basis. The results of operations of each acquisition are included in the Company's consolidated statement of income from the date of each acquisition.

During fiscal 1998, the Company completed the sale of its disk drive IC business to Adaptec, Inc. The Company received approximately $27 million in cash for the disk drive product line and, after providing for the write-off of inventory, fixed assets and other costs incurred to complete the transaction, recorded a net gain of approximately $13 million. The Company also entered into other arrangements with Adaptec that provided for payments to the Company aggregating $13 million, of which $3 million was earned in fiscal 1999 and $10 million was earned in fiscal 1998, for assisting Adaptec in research and development efforts.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(continued)

4 | INDUSTRY AND GEOGRAPHIC SEGMENT INFORMATION

The Company operates in two segments: the design, manufacture and marketing of a broad range of integrated circuits, which comprises approximately 98% of the Company's revenue, and the design, manufacture and marketing of a range of assembled products, which accounts for the remaining 2% of the Company's revenue. Effectively, the Company operates in one reportable segment.

Geographic Information

The Company operates in three major geographic areas. The following geographic area data include trade sales based upon point of sale and long-lived assets based upon physical location. The predominant countries comprising European operations are England, France, Germany and Ireland. The predominant country comprising Asian operations is Japan. For segment reporting purposes, sales generated by North American operations include export sales of $570.2 million in fiscal 2000, $262.4 million in fiscal 1999 and $128.2 million in fiscal 1998.

GEOGRAPHIC SEGMENT INFORMATION	2000	1999	1998
Sales			
North America, including export	$1,722,056	$ 929,971	$ 748,283
Europe	504,669	313,598	312,523
Asia	350,822	206,810	169,765
Total sales	$2,577,547	$1,450,379	$1,230,571
Long-lived Assets			
North America	$ 466,612	$ 417,854	$ 448,384
Europe	388,439	178,361	187,921
Asia	116,873	77,154	82,941
Total long-lived assets	$ 971,924	$ 673,369	$ 719,246

5 | ACCOUNTING CHANGE—RECOGNITION OF REVENUE ON CERTAIN SALES TO DISTRIBUTORS

In the fourth quarter of fiscal 1998, the Company changed its accounting method for recognizing revenue on all shipments to international distributors and certain shipments to domestic distributors. The change was made with an effective date of November 2, 1997 (the beginning of fiscal 1998). While the Company has historically deferred revenue on most shipments made to domestic distributors until the products were resold by the distributors to end users, it recognized revenue on shipments to international distributors and certain shipments to domestic distributors upon shipment to the distributors, net of appropriate reserves for returns and allowances. As a result of this accounting change, revenue recognition on shipments to distributors worldwide is deferred until the products are resold to the end users. The Company believes that deferral of revenue and related gross margin on shipments to distributors until the product is shipped by the distributors is a more meaningful measurement of results of operations because it better conforms to the substance of the transaction considering the changing business environment in the international marketplace; is consistent with industry practice; and will, accordingly, better focus the entire organization on sales to end users and, therefore, is a preferable method of accounting. The cumulative effect in 1998 of the change in accounting principle was a charge of approximately $37 million (net of $20 million of income taxes) or $0.11 per diluted share.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(continued)

The estimated pro forma effect of the accounting change on the prior years' results is as follows:

	1998
As reported:	
Net sales	$1,230,571
Net income	$ 82,408
Basic earnings per share	$ 0.26
Diluted earnings per share	$ 0.25
Pro forma amounts with the change in accounting principle related to revenue recognition applied retroactively: (unaudited)	
Net sales	$1,230,571
Net income	$ 119,488
Basic earnings per share	$ 0.37
Diluted earnings per share	$ 0.36

6 RESTRUCTURING CHARGE

The Company recorded a restructuring charge of $17 million during the third quarter of fiscal 1998. Of this charge, $7 million related to a worldwide workforce reduction of approximately 350 employees, which was completed during the fourth quarter of fiscal 1998, in the manufacturing, selling and general and administrative areas. In addition, the Company performed a review of its business strategy and concluded that the key to success in the DSP market was to focus on opportunities in the general-purpose DSP market that could provide consistent growth, while at the same time being more selective in pursuing vertical market DSP opportunities. As a result of this review, the Company scaled back its efforts in some of the higher volume, lower margin, shorter life cycle product areas and wrote off $10 million, which was the carrying value of specific assets associated with these businesses.

7 INVESTMENTS

Investments at October 28, 2000 and October 30, 1999 were as follows:

	2000	1999
WaferTech, LLC	$ 32,852	$ 32,852
CSM	-	27,413
Other	184,903	59,036
Total investments	$217,755	$119,301

In January 1999, the Company concluded an agreement to sell to other WaferTech partners 78% of its 18% equity ownership in WaferTech for cash equal to the carrying value of the 78% equity ownership at October 31, 1998. During fiscal 1999, the Company invested an additional $4 million in WaferTech. The Company no longer exercises significant influence over WaferTech's operating and financial policies and, accordingly, accounts for its remaining 4% investment under the cost method. Changes in the value of the investment are not recognized unless an impairment in the value of the investment is deemed by management to be "other than temporary." During the first quarter of fiscal 2001, the Company sold its investment in WaferTech—See Note 15.

The Company had an equity investment in Chartered Semiconductor Manufacturing Pte., Ltd., (CSM), in Singapore of approximately $27 million, which represented a less than 5% ownership interest. During fiscal 2000, the Company sold its equity investment for $65 million, realizing a $44 million gain over the original cost of $21 million. This gain is included in other nonoperating income.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(continued)

Other investments consist primarily of long-term investments in mutual funds and bank money market funds, which are related to the Company's deferred compensation plan and are largely offset by a corresponding noncurrent liability to the plan participants. These investments are classified as trading.

Investments are stated at fair value, which is based on market quotes, interest rates or management estimates, as appropriate. Adjustments to fair value of investments classified as available-for-sale are recorded as an increase or decrease in stockholders' equity. Adjustments to fair value of and income pertaining to other investments are recorded in operating expense.

8 | ACCRUED LIABILITIES

Accrued liabilities at October 28, 2000 and October 30, 1999 consisted of the following:

	2000	1999
Accrued compensation and benefits	$ 99,984	$ 65,997
Other	94,033	45,288
Total accrued liabilities	$194,017	$111,285

9 | DEBT AND CREDIT FACILITIES

Long-term debt at October 28, 2000 and October 30, 1999 consisted of the following:

	2000	1999
4.75% Convertible Subordinated Notes due October 1, 2005	$1,200,000	$ -
6.625% Notes due March 1, 2000	-	80,000
Other	261	-
Long-term debt	1,200,261	80,000
Less: Current portion long-term debt	-	(80,000)
Total long-term debt	$1,200,261	$ -

On October 1, 2000, the Company issued $1,200 million of 4.75% Convertible Subordinated Notes due October 1, 2005 (2005 Notes) with semiannual interest payments on April 1 and October 1 of each year, commencing April 1, 2001. The 2005 Notes are convertible, at the option of the holder, into the Company's common stock at any time unless previously redeemed or repurchased, at a conversion price of $129.78 per share, subject to adjustment in certain events. The net proceeds of the offering were $1,172 million after payment of the underwriting discount and expenses of the offering, which will be amortized over the term of the 2005 Notes.

As of March 11, 1999, the Company had converted $229,967,000 of the $230 million principal amount of its 3.50% Convertible Subordinated Notes due 2000 (2000 Notes) into an aggregate of 10,983,163 shares of the Company's common stock, and the remaining 2000 Notes were redeemed by a cash payment of $33,000. This conversion did not have an impact on diluted earnings per share.

Simultaneous with the sale of the 6.625% Notes, the Company entered into an interest rate swap and cap agreement for the term of the 6.625% Notes having a notional principal amount of $40 million whereby the effective net interest rate on $40 million of the 6.625% Notes will be the six-month LIBOR rate (up to a maximum of 7%) plus 1.4%. The notes were repaid in March 2000. While outstanding in the year ended October 28, 2000, the net effective interest rate on $40 million of the 6.625% Notes was 8.2% after giving effect to the interest rate swap agreement.

There were $5.8 million and $2.3 million of foreign currency borrowings outstanding at October 28, 2000 and October 30, 1999, respectively, which were at prevailing market rates for the respective currencies. Borrowings under the Company's credit agreement and lines of credit are generally due within six months.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(continued)

10 | LEASE COMMITMENTS

The Company leases certain of its facilities and equipment under various operating and capital leases that expire at various dates through 2030. The lease agreements frequently include renewal and purchase provisions and require the Company to pay taxes, insurance and maintenance costs.

Total rental expense under operating leases was approximately $19 million in fiscal 2000, $17 million in fiscal 1999 and $16 million in fiscal 1998.

The following is a schedule of future minimum lease payments under capital leases and rental payments required under long-term operating leases at October 28, 2000:

Fiscal Years	Operating Leases	Capital Leases
2001	$ 14,298	$ 10,689
2002	10,143	9,376
2003	7,335	3,930
2004	5,723	57
2005	4,804	-
Later Years	12,849	-
Total	$ 55,152	24,052
Less amount representing interest		(1,415)
Present value of minimum lease payments		$ 22,637

11 | COMMITMENTS AND CONTINGENCIES

Litigation

The Company is a defendant in a federal lawsuit brought in the Southern District of New York by U.S. Philips Corporation (Philips). On October 2, 2000, Philips filed suit against the Company, Cirrus Logic, Inc., Cypress Semiconductor Corporation, Linear Technology Corporation and Standard Microsystems Corporation alleging patent infringement and seeking injunctive relief and unspecified damages. Because the lawsuit is in pre-trial stages, management is unable to estimate the effect of this lawsuit on its consolidated financial position or consolidated results of operations.

The Company is a defendant in a federal lawsuit brought in Florida by Jordan Spencer Jacobs (Jacobs). On May 12, 2000, Jacobs filed suit against the Company, Microsoft Corporation and Pelican Accessories, Inc. alleging patent infringement and seeking injunctive relief and unspecified damages. The parties are presently engaged in discovery. Because the lawsuit is in pre-trial stages, management is unable to estimate the effect of this lawsuit on its consolidated financial position or consolidated results of operations.

On January 18, 2000, the Company became aware that Silicon Laboratories, Inc. (Silicon) had named ADI as a defendant in a lawsuit filed in the United States District Court for the Western District of Texas, which alleged misappropriation of trade secrets and patent infringement by the Company. Subsequent to fiscal 2000, the Company entered into a settlement with Silicon that was not material.

The Company was a defendant in a federal lawsuit brought in Arizona by the Lemelson Medical, Education & Research Foundation, L.P. (Lemelson). On July 31, 1998, Lemelson commenced an action in federal court against the Company and 26 other companies alleging infringement of 16 patents allegedly covering various manufacturing processes and techniques used in the fabrication of semiconductor products. Lemelson served the Company with a complaint on November 24, 1998 seeking unspecified damages, treble damages for willful infringement and injunctive relief. During fiscal 2000, the Company entered into a settlement agreement with Lemelson that was not material.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(continued)

The Company is a defendant in a federal lawsuit brought in California by Linear Technology Corporation (LTC). On June 26, 1997, LTC filed suit against the Company, Impala Linear Corporation, Toyoda Automatic Loom Works, Ltd., Maxim Integrated Products, Inc. and Unitrode Corporation alleging patent infringement and seeking injunctive relief and unspecified damages. The parties are presently engaged in discovery. The case was originally scheduled for trial on liability issues beginning on September 7, 1999. The original district judge recused himself and the case has not yet been rescheduled for trial. While the Company can give no assurance that it will prevail in this litigation, it believes that resolution of this litigation will not have a material adverse effect on the Company's consolidated financial position, although an unfavorable outcome could have a material adverse effect on the Company's results of operations or cash flow in the quarter, or annual period in which this matter is resolved.

Patent infringement suits were pending against the Company by Sextant Avionique, S.A. (Sextant) in France claiming that the Company's accelerometer infringes certain patents. Sextant has obtained a court ruling that the Company infringed Sextant's French patents, and therefore, unless the decision is reversed, the Company will be unable to manufacture or sell any infringing accelerometers in France. The Company is currently appealing the French court's decision. The Company does not believe that the French court's decision will have a material adverse effect on its consolidated financial position or consolidated results of operations.

From time to time as a normal incidence of the nature of the Company's business, various claims, charges and litigation are asserted or commenced against the Company arising from, or related to, contractual matters, patents, trademarks, personal injury, environmental matters, product liability, insurance coverage and personnel and employment disputes. As to such claims and litigation, the Company can give no assurance that it will prevail. However, the Company does not believe that these matters will have a material adverse effect on the Company's consolidated financial position, although an adverse outcome of any of these matters could have a material adverse effect on the Company's consolidated results of operations or cash flow in the quarter, or annual period in which one or more of these matters are resolved.

Wafer Supply Agreements

The Company maintained a deposit of $20 million with Chartered Semiconductor Manufacturing Pte., Ltd., (CSM). This deposit was classified in the balance sheet line item "Other assets." The outstanding balance of the deposit is refunded in proportion to the Company's purchases of wafers from CSM. Approximately $1 million of the deposit was outstanding as of October 28, 2000 and has since been refunded.

12 | STOCKHOLDERS' EQUITY

Stock Plans

In fiscal 1998, the stockholders approved the 1998 Stock Option Plan (1998 Plan), which provides for the issuance of nonstatutory and incentive stock options to purchase up to 30 million shares of common stock. In March 2000, the stockholders approved an amendment to the 1998 Plan to increase the shares reserved for issuance by an additional 34 million shares. Officers, employees, directors, consultants and advisors of the Company and its subsidiaries are eligible to be granted options under this plan at a price not less than 100% (110% in the case of incentive stock options granted to 10% or greater stockholders) of the fair market value of the common stock at the time the option is granted. The Company's 1988 Stock Option Plan was terminated upon adoption of the 1998 Stock Option Plan; however, options to purchase common stock remain outstanding under the plan. There are no remaining options outstanding under the Company's 1980 Stock Option Plan.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

Under the 1994 Director Option Plan, which was amended in 1998, each non-employee director was granted annually a non-statutory option to purchase 21,000 shares of common stock at an exercise price equal to the fair market value on the date of grant. Up to 1999, each newly elected non-employee director received a grant of an option to purchase 21,000 shares of Common Stock upon his or her election to the Board (the "Initial Grant"). The 1994 Director Plan was amended in 1999 whereby the number of shares of Common Stock underlying the Initial Grant was increased from 21,000 to 60,000. On December 8, 1999, the 1994 Director Option Plan was terminated (effective March 14, 2000), and the Board of Directors authorized that from and after March 14, 2000, all options granted to non-employee directors will be granted under the Company's 1998 Stock Option Plan. The options granted under the 1998 Stock Option Plan, as well as the options previously granted under the 1994 Director Option Plan, are exercisable on a cumulative basis in annual installments of 33 1/3% each on the first, second and third anniversaries of the date of grant. The Company also has options outstanding under the 1992 Director Option Plan that are exercisable on a cumulative basis in annual installments of 33 1/3% each on the third, fourth and fifth anniversaries of the date of grant.

Information with respect to activity under the stock option plans is set forth below:

Stock Option Activity	Shares Available for Grant	Options Outstanding: Number	Options Outstanding: Weighted Average Price Per Share
Balance, November 1, 1997	13,996	33,810	$ 6.46
Shares authorized for 1998 Stock Option Plan	30,000	-	-
Additional shares authorized for 1994 Director Stock Option Plan	300	-	-
Shares authorized for Medialight acquisition	204	-	-
Options granted	(39,892)	39,892	$ 8.37
Options exercised	-	(4,028)	$ 3.18
Options canceled	18,256	(18,256)	$ 11.58
Shares canceled upon termination of 1988 Stock Option Plan	(5,158)	-	-
Balance, October 31, 1998	17,706	51,418	$ 6.39
Options granted	(1,320)	1,320	$ 17.26
Options exercised	-	(6,054)	$ 4.26
Options canceled	1,302	(1,302)	$ 7.65
Balance October 30, 1999	17,688	45,382	$ 6.97
Additional shares authorized for 1998 Stock Option Plan	34,000	-	-
Options granted	(15,833)	15,833	$ 31.03
Options exercised	-	(7,210)	$ 5.05
Options canceled	1,755	(1,755)	$ 14.02
Balance, October 28, 2000	37,610	52,250	$ 14.31

Option Amendment

In September 1998, the Board of Directors approved a stock option program amendment pursuant to which all employees with stock options granted during the period beginning December 1, 1996 and ending on August 3, 1998 could elect to reduce the option exercise price to $7.38 per share (equal to the then fair market value). Upon such election, the vesting schedule for the affected options was reset, whereby one-third vest on September 8, 2001, one-third on September 8, 2002 and the final one-third on September 8, 2003. A total of 16,442,996 options with exercise prices ranging from $11.13 to $17.13 per share were amended under the program. The activity as a result of this option program amendment is presented in the preceding table as cancellations and subsequent grants.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(continued)

The following table summarizes information about options outstanding at October 28, 2000:

	Outstanding Options			Options Exercisable	
Range of Exercise Price	Number Outstanding at 10/28/00	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable at 10/28/00	Weighted Average Exercise Price
\$ 0.98 - \$ 9.93	35,115	6.6	\$ 6.87	5,369	\$ 5.38
\$ 9.94 - \$ 19.85	1,293	7.6	\$ 13.11	150	\$ 13.11
\$ 19.86 - \$ 29.78	14,828	9.1	\$ 28.67	9	\$ 28.54
\$ 29.79 - \$ 59.55	390	9.2	\$ 42.52	-	\$ -
\$ 59.56 - \$ 99.25	624	9.6	\$ 76.99	-	\$ -
\$ 0.98 - \$ 99.25	52,250	7.4	\$ 14.31	5,528	\$ 5.62

The Company has an employee stock purchase plan (ESPP) that allows eligible employees to purchase, through payroll deductions, shares of the Company's common stock at 85% of the fair market value at specified dates. Employees purchased 1,011,624 shares in fiscal 2000 (1,312,800 and 1,205,000 in fiscal 1999 and 1998, respectively) for \$16.5 million (\$12.9 million and \$11.8 million in fiscal 1999 and 1998, respectively). At October 28, 2000, approximately 3,382,000 common shares, net of retirements, remained available for issuance under the stock purchase plan.

Under the 1991 Restricted Stock Plan, a maximum of 5,400,000 shares of common stock was authorized for awards by the Company to key employees for nominal consideration. This plan succeeded the Company's 1978 Restricted Stock Plan that provided for the issuance of up to 14,745,600 shares of common stock. Shares awarded from both plans are restricted as to transfer, usually for a period of five years and, under certain conditions, may be subject to repurchase by the Company at the original purchase price per share. There were no additional shares awarded under the restricted stock plans in fiscal 2000 and fiscal 1999. Shares awarded under the Company's restricted stock plans, net of cancellations, for fiscal 1998 were 435,000. The fair market value of the shares at the date of award was \$6,293,000 in fiscal 1998 and was accounted for as deferred compensation and is being amortized over the restriction period. During fiscal 2000, 1999 and 1998, \$2,231,000, \$2,799,000 and \$2,918,000, respectively, of such compensation was charged to expense. At October 28, 2000, there were 1,196,982 shares of common stock, net of forfeitures, available for issuance under the 1991 Restricted Stock Plan.

As of October 28, 2000, a total of 94,439,169 common shares were reserved for issuance under the Company's stock plans.

Common Stock Repurchase

In November 2000, the Board of Directors authorized the Company to repurchase up to 15 million shares of its common stock. The repurchased shares will be held as treasury shares and will be available for issuance under the Company's stock option plans, employee stock purchase plan and other benefit plans.

In May and October of 1998, the Board of Directors authorized the Company to repurchase up to 8 million and 16 million shares, respectively, of its common stock over the succeeding 12 months. At October 31, 1998, the Company had purchased 8,800,000 shares of its common stock at an average purchase price of \$9.57 per share. The Company did not purchase any shares in fiscal 2000 and fiscal 1999. The repurchased shares were held as treasury shares, and were used to partially fund the Company's employee stock plans and the two-for-one stock split effected March 15, 2000.

Stock-Based Compensation

As permitted under Statement of Financial Accounting Standards No. 123 (FAS 123), "Accounting for Stock-Based Compensation," the Company has elected to follow Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related Interpretations, in accounting for stock-based awards to employees. Under APB 25, the Company generally recognizes no compensation expense with respect to such awards.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

Pro forma information regarding net income and earnings per share is required by FAS 123 for awards granted after October 28, 1995 as if the Company had accounted for its stock-based awards to employees under the fair value method of FAS 123. The fair value of the Company's stock-based awards to employees was estimated using a Black-Scholes option pricing model. The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions, including the expected stock price volatility. Because the Company's stock-based awards to employees have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its stock-based awards to employees. The fair value of the Company's stock-based awards to employees was estimated assuming no expected dividends and the following weighted average assumptions:

	Options			ESPP		
	2000	1999	1998	2000	1999	1998
Expected life (years)	4.9	6.1	6.1	1.0	1.0	1.0
Expected stock price volatility	56.6%	52.9%	49.5%	72.5%	64.1%	57.6%
Risk-free interest rate	6.0%	5.3%	5.3%	6.3%	5.1%	5.4%

The following is a summary of weighted average grant date values generated by application of the Black-Scholes model:

	Weighted Average Grant Date Value		
	2000	1999	1998
Stock option plans	$16.90	$ 9.77	$4.91
ESPP	$ 7.88	$ 4.40	$4.17

As required under FAS 123, the reported net income and diluted earnings per share have been presented to reflect the impact had the Company been required to include the amortization of the Black-Scholes option value as expense. For purposes of this disclosure, the estimated fair value of the options is amortized to expense over the options' vesting periods. The Company's pro forma information follows:

	2000	1999	1998
Pro forma net income	$526,615	$162,872	$56,719
Pro forma diluted earnings per share	$ 1.38	$ 0.45	$ 0.16

The effects on pro forma disclosures of applying FAS 123 are not likely to be representative of the effects on pro forma disclosures of future years. Because FAS 123 is applicable only to options granted subsequent to October 28, 1995, the pro forma effect is not fully reflected for fiscal years 1999 and 1998.

Preferred Stock

The Company has 471,934 authorized shares of $1.00 par value Preferred Stock. The Board of Directors is authorized to fix designations, relative rights, preferences and limitations on the preferred stock at the time of issuance. An aggregate of 300,000 shares of preferred stock have been designated as Series A Junior Participating Preferred Stock for issuance in connection with the Company's Stockholder Rights Plan.

Common Stock Purchase Rights

In March 1998, the Board of Directors adopted a Stockholder Rights Plan (the Stockholder Rights Plan) that replaced a plan adopted by the Board in 1988. Pursuant to the Stockholder Rights Plan, after giving effect to the Company's two-for-one stock split effected on March 15, 2000, each share of the Company's Common Stock (Common Stock) currently has an associated one-half of a right. Under certain circumstances, each whole right would entitle the registered holder to purchase from the Company one one-thousandth share of Series A Junior Participating Preferred Stock at a purchase price of $180 in cash, subject to adjustment.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

The rights are not exercisable and cannot be transferred separately from the Common Stock until ten business days (or such later date as may be determined by the Board of Directors) after (i) the public announcement that a person or group of affiliated or associated persons has acquired (or obtained rights to acquire) beneficial ownership of 15% or more of Common Stock or (ii) the commencement of a tender offer or exchange offer that would result in a person or group beneficially owning 20% or more of the outstanding Common Stock. If and when the rights become exercisable, each holder of a right shall have the right to receive, upon exercise, that number of shares of Common Stock (or in certain circumstances, cash property or other securities of the Company) that equals the exercise price of the right divided by 50% of the current market price (as defined in the Stockholder Rights Plan) per share of Common Stock at the date of the occurrence of such event. In the event at any time after any person becomes an acquiring person, (i) the Company is consolidated with, or merged with and into, another entity and the Company is not the surviving entity of such consolidation or merger or if the Company is the surviving entity, but shares of its outstanding common stock are changed or exchanged for stock or securities or cash or any other property, or (ii) 50% or more of the Company's assets or earning power is sold or transferred, each holder of a right shall thereafter have the right to receive upon exercise, that number of shares of common stock of the acquiring company that equals the exercise price of the right divided by 50% of the current market price of such common stock at the date of the occurrence of the event.

The rights have certain anti-takeover effects, in that they would cause substantial dilution to a person or group that attempts to acquire a significant interest in the Company on terms not approved by the Board of Directors. The rights expire on March 17, 2008 but may be redeemed by the Company for $.001 per right at any time prior to the tenth day following a person's acquisition of 15% or more of the Company's Common Stock. So long as the rights are not separately transferable, each new share of Common Stock issued will have one-half of a right associated with it.

13 | RETIREMENT PLANS

The Company and its subsidiaries have various savings and retirement plans covering substantially all employees. The Company maintains a defined contribution plan for the benefit of its eligible United States employees. This plan provides for Company contributions of up to 5% of each participant's total eligible compensation. In addition, the Company contributes an amount equal to each participant's contribution, if any, up to a maximum of 2% of each participant's total eligible compensation, plus 50% of the contributions between 2% and 4%. The Company also has various defined benefit pension and other retirement plans for certain foreign employees that are consistent with local statutes and practices. The total expense related to all of the Company's retirement plans was approximately $26 million in fiscal 2000 and $21 million in fiscal years 1999 and 1998, which primarily consisted of costs related to the U.S. defined contribution plan. Also included in total expense is pension expense related to foreign defined benefit plans of approximately $3 million for each of the fiscal years 2000, 1999 and 1998.

Non-U.S. Plan Disclosures

The Company's funding policy for its foreign defined benefit pension plans is consistent with the local requirements of each country. The plans' assets consist primarily of U.S. and foreign equity securities, bonds, property and cash.

Net annual periodic pension cost of non-U.S. plans is presented in the following table:

	2000	1999	1998
Service cost of benefits earned during the year	$ 4,110	$ 4,079	$ 3,208
Interest cost on projected benefit obligation	3,085	3,273	3,246
Expected return on plan assets	(8,819)	(6,052)	(12,623)
Net amortization and deferrals	4,588	1,846	9,440
Net periodic pension cost	$ 2,964	$ 3,146	$ 3,271

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

Obligation and asset data of the plans at fiscal year end is presented in the following table:

	2000	1999
Benefit Obligation:		
Beginning balance	$ 54,914	$ 56,485
Service cost	4,110	4,079
Interest cost	3,085	3,273
Plan participants' contributions	1,299	1,267
Benefits paid	(709)	(1,540)
Actuarial (gain)/loss	5,773	(7,939)
Exchange rate adjustment	(5,166)	(711)
Ending balance	$ 63,306	$ 54,914
Plan Assets at Fair Value:		
Beginning balance	$ 66,157	$ 58,784
Actual return on plan assets	8,583	6,052
Company contributions	2,125	2,646
Plan participants' contributions	1,299	1,267
Benefits paid	(709)	(1,540)
Exchange rate adjustment	(7,091)	(1,052)
Ending balance	$ 70,364	$ 66,157
Reconciliation of Funded Status:		
Fund status—Plan assets in excess of benefit obligation	$ (7,058)	$ (11,243)
Unrecognized net gain	13,496	15,148
Unrecognized prior service cost	(1,477)	(1,077)
Net amount recognized	$ 4,961	$ 2,828
Amounts recognized in the balance sheet consist of:		
Prepaid benefit cost	$ (2,587)	$ (4,201)
Accrued benefit cost	7,548	7,029
Total	$ 4,961	$ 2,828

Accrued benefit cost at October 28, 2000 includes projected benefit obligations of $13.2 million and accumulated benefit obligations of $9.7 million, versus plan assets of $4.9 million for three plans whose obligations exceeded their assets. Accrued benefit cost at October 30, 1999 includes projected benefit obligations of $14.8 million and accumulated benefit obligations of $8.7 million, versus plan assets of $6.4 million for four plans whose obligations exceeded their assets.

The range of assumptions used for the non-U.S. defined benefit plans reflects the different economic environments within the various countries. The projected benefit obligation was determined using the following assumptions:

	2000	1999
Discount rate	3% - 12%	4% - 12%
Rate of increase in compensation levels	3% - 10%	4% - 10%
Expected long-term returns on assets	5% - 12%	5% - 12%

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(continued)

14 | INCOME TAXES

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

	2000	1999	1998
U.S. federal statutory tax rate	35.0%	35.0%	35.0%
Income tax provision reconciliation:			
Tax at statutory rate	$302,999	$ 90,139	$ 52,660
Irish income subject to lower tax rate	(35,605)	(25,557)	(10,960)
Change in valuation allowance	-	-	(5,559)
State income taxes, net of federal benefit	6,448	260	502
Research and development tax credits	(11,288)	(2,700)	(4,400)
Foreign Sales Corporation	(5,392)	(4,923)	(1,745)
Amortization of goodwill	1,037	1,189	545
Net foreign tax in excess of U.S. federal statutory tax rate	428	(156)	125
Other, net	(48)	2,469	(197)
Total income tax provision	$258,579	$ 60,721	$ 30,971

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

	2000	1999	1998
Pretax income:			
Domestic	$622,331	$114,333	$ 34,290
Foreign	243,380	143,207	116,169
	$865,711	$257,540	$150,459

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

	2000	1999	1998
Current:			
Federal	$224,413	$ 19,949	$ 24,588
Foreign	37,205	23,790	17,983
State	9,505	400	772
Total current	$271,123	$ 44,139	$ 43,343
Deferred (prepaid):			
Federal	$ (11,807)	$ 16,262	$ (7,792)
Foreign	(737)	320	(4,580)
Total deferred (prepaid)	$ (12,544)	$ 16,582	$(12,372)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(continued)

The Company's practice is to reinvest indefinitely the earnings of certain international subsidiaries. Accordingly, no U.S. income taxes have been provided for approximately $714,467,000 of unremitted earnings of international subsidiaries.

The significant components of the Company's deferred tax assets and liabilities for the fiscal years ended October 28, 2000 and October 30, 1999 are as follows:

	2000	1999
Deferred tax assets:		
Inventory reserves	$ 34,702	$ 32,816
Deferred income on shipments to distributors	45,864	34,750
Reserves for compensation and benefits	21,968	12,769
Intercompany profits in foreign inventories	2,945	5,181
Other	-	8,730
Total gross deferred tax assets	105,479	94,246
Deferred tax liabilities:		
Depreciation	(46,729)	(44,468)
Other	(966)	-
Total gross deferred tax liabilities	(47,695)	(44,468)
Net deferred tax assets	$ 57,784	$ 49,778

15 SUBSEQUENT EVENTS

The Company completed the acquisition of ChipLogic, Inc. (ChipLogic) of Santa Clara, California on January 4, 2001, in a transaction valued at approximately $86 million. ChipLogic is a developer of high-performance integrated circuits and software focused on the convergence of voice, broadband access and network protocol processing. The Company has filed a registration statement in connection with this transaction with the Securities and Exchange Commission. The transaction is being effected in the form of a merger of a wholly owned subsidiary of the Company into ChipLogic under which the Company will issue one share of common stock for each share of ChipLogic common stock. ChipLogic has approximately 1.65 million shares of common stock outstanding on a fully diluted basis.

Through January 17, 2001, the Company also completed four smaller acquisitions in transactions that had a total value of approximately $50 million, including contingent consideration. These transactions are expected to be accounted for as purchases.

On December 27, 2000, the Company sold its investment in WaferTech, LLC to Taiwan Semiconductor Manufacturing Company for approximately $61 million. In the first quarter of fiscal 2001, the Company will record a pretax realized gain on the sale of this investment of approximately $28 million.

REPORT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

The Board of Directors and Stockholders
Analog Devices, Inc.

We have audited the accompanying consolidated balance sheets of Analog Devices, Inc. as of October 28, 2000 and October 30, 1999, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended October 28, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Analog Devices, Inc. at October 28, 2000 and October 30, 1999, and the consolidated results of its operations and its cash flows for each of the three years in the period ended October 28, 2000, in conformity with accounting principles generally accepted in the United States.

As discussed in Notes 2(n) and 5 to the consolidated financial statements, in the fiscal year ended October 31, 1998, the Company changed its method for recognizing revenue on certain shipments to distributors.

Ernst + Young LLP

Boston, Massachusetts
November 13, 2000, except for Note 15,
as to which the date is January 17, 2001

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

QUARTERLY FINANCIAL INFORMATION FOR FISCAL 2000 AND FISCAL 1999

(thousands of dollars except as noted)	4Q00	3Q00	2Q00	1Q00	4Q99	3Q99	2Q99	1Q99
Net sales	805,617	700,658	580,995	490,277	431,036	378,776	340,067	300,500
Cost of sales	333,730	300,519	257,184	225,087	205,922	190,481	176,435	162,805
Gross margin	471,887	400,139	323,811	265,190	225,114	188,295	163,632	137,695
% of sales	59%	57%	56%	54%	52%	50%	48%	46%
Operating expenses:								
Research and development	123,423	103,429	90,702	83,012	75,414	67,142	61,899	52,584
Purchased in-process research and development	-	-	-	-	-	-	5,140	-
Selling, marketing, general and administrative	80,569	77,198	71,073	64,524	59,702	54,589	49,167	46,181
Total operating expenses	203,992	180,627	161,775	147,536	135,116	121,731	116,206	98,765
% of sales	25%	26%	28%	30%	31%	32%	34%	33%
Operating income	267,895	219,512	162,036	117,654	89,998	66,564	47,426	38,930
% of sales	33%	31%	28%	24%	21%	18%	14%	13%
Equity in loss of WaferTech	-	-	-	-	-	-	-	1,149
Nonoperating expenses (income):								
Interest expense	2,978	360	822	1,681	1,964	1,632	2,439	4,111
Interest income	(22,160)	(15,769)	(13,595)	(11,906)	(9,428)	(6,881)	(6,117)	(4,300)
Other	1,732	(44,020)*	449	814	(169)	(31)	400	609
Total nonoperating (income) expense	(17,450)	(59,429)	(12,324)	(9,411)	(7,633)	(5,280)	(3,278)	420
Income before income taxes	285,345	278,941	174,360	127,065	97,631	71,844	50,704	37,361
% of sales	35%	40%	30%	26%	23%	19%	15%	12%
Provision for income taxes	85,473	86,740	52,308	34,058	24,413	17,243	11,598	7,467
Net income	199,872	192,201	122,052	93,007	73,218	54,601	39,106	29,894
% of sales	25%	27%	21%	19%	17%	14%	12%	10%
Per share—basic	.56	.54	.35	.26	.21	.16	.12	.09
Per share—diluted	.52	.50	.32	.25	.20	.15	.11	.09
Shares used to compute earnings per share (in thousands)								
Basic	356,376	355,018	352,706	349,352	347,340	345,420	334,024	319,144
Diluted	384,307	383,544	382,321	374,458	369,548	366,960	361,396	353,714

* Includes $44 million of realized gain on sale of investment in Chartered Semiconductor Manufacturing Pte., Ltd.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Ray Stata, Chairman of the Board, Analog Devices, Inc., Norwood, MA

Jerald G. Fishman, President and Chief Executive Officer, Analog Devices, Inc., Norwood, MA

John L. Doyle, Retired Executive Vice President, Hewlett-Packard Company, Palo Alto, CA

Charles O. Holliday, Jr., Chairman of the Board and Chief Executive Officer, E.I. DuPont de Nemours & Co., Inc., Wilmington, DE

Joel Moses, D.C. Jackson Professor of Computer Science and Engineering, Massachusetts Institute of Technology, Cambridge, MA

F. Grant Saviers, Retired Chairman of the Board and Chief Executive Officer, Adaptec, Inc., Milpitas, CA

Lester C. Thurow, Professor of Management and Economics, Massachusetts Institute of Technology, Cambridge, MA

CORPORATE OFFICERS

Ray Stata, Chairman of the Board

Jerald G. Fishman, President and Chief Executive Officer

Ross Brown, Vice President, Human Resources

Samuel H. Fuller, Vice President, Research and Development

Russell K. Johnsen, Vice President and General Manager, Communications Products

Rob Marshall, Vice President, Worldwide Manufacturing

William A. Martin, Treasurer

Robert McAdam, Vice President and General Manager, Analog Semiconductor Components

Brian McAloon, Vice President, Sales

Joseph E. McDonough, Vice President, Finance, and Chief Financial Officer

Franklin Weigold, Vice President and General Manager, Micromachined Products

Paul P. Brountas, Clerk; Senior Partner, Hale and Dorr LLP, Boston, MA

VICE PRESIDENTS

Russ Brennan
Bob Conrad
Lewis W. Counts
Curtis Davis
Dennis Dempsey
Gerry Dundon
Kevin Greene
John Hassett
John Hussey
Christian Kermarrec
Dick Meaney
Mark Norton
Vincent Roche
Volkmar Schaldach
Kevin Styles
Shozo Sugiguchi
Geoffrey R.M. Thomas

FELLOWS

Robert W. Adams
Woodrow S. Beckford
Derek Bowers
A. Paul Brokaw
Lewis W. Counts
Barrie Gilbert
Royal Gosser
Bill Hunt
Jerome Lapham
Christopher W. Mangelsdorf
John Memishian
Douglas A. Mercer
Frank M. Murden
Mohammad Nasser
Wyn Palmer
Carl M. Roberts
Paul A. Ruggerio
Brad W. Scharf
David Smart
Jacob Steigerwald
Michael P. Timko
Robert W. K. Tsang
Michael G. Tuthill
James Wilson
Scott Wurcer