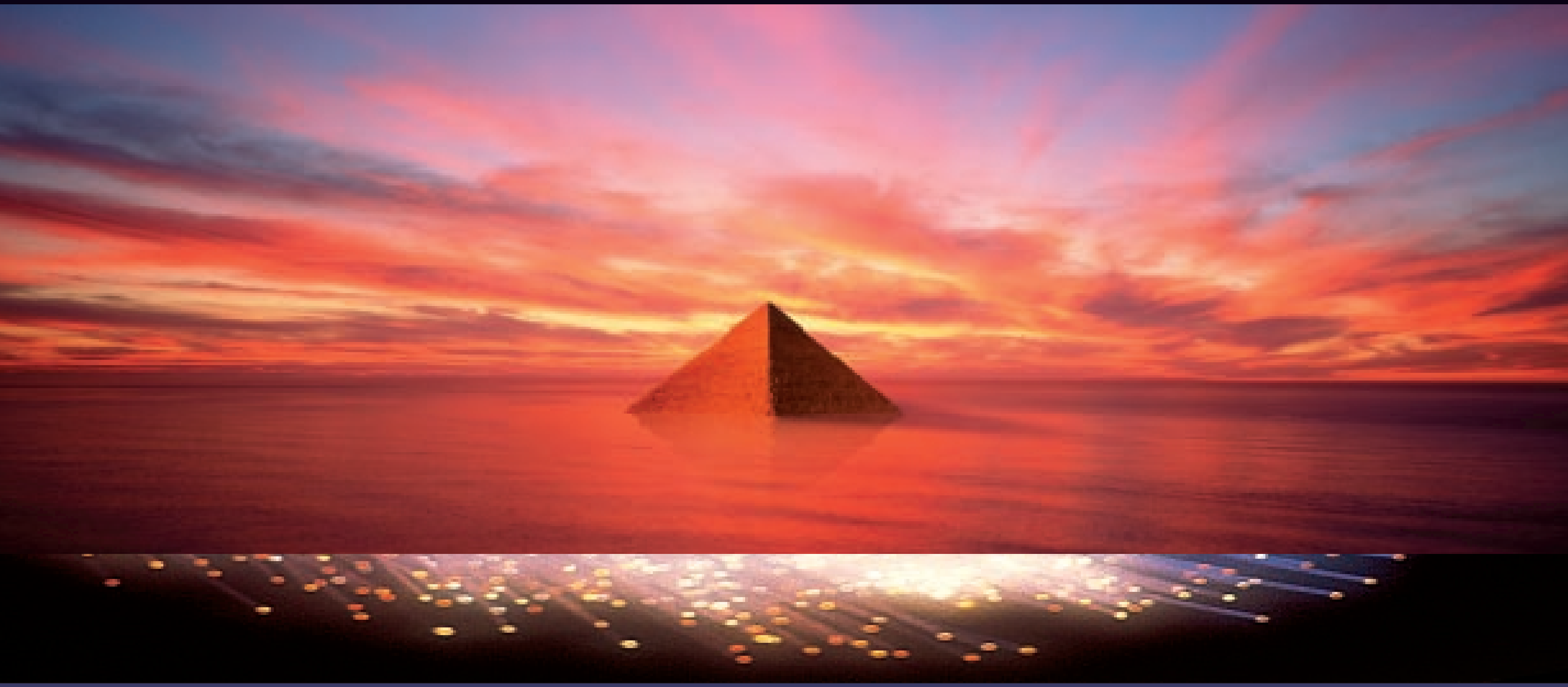
AMCC
Applied Micro Circuits Corporation

Lasting Innovation for the Dynamic Networking Landscape



Annual Report Fiscal 2000

Our Mission

To be the premier supplier of high-bandwidth silicon for the world's optical networks.

Corporate Profile

Applied Micro Circuits Corporation (AMCC) designs, develops, manufactures and markets high-performance, high-bandwidth silicon connectivity solutions for the world's optical communications infrastructure. The Company utilizes a combination of high-frequency, analog, digital and mixed-signal design expertise, system-level knowledge and multiple silicon process technologies to offer integrated circuit products for the telecommunications markets that address the SONET/SDH and ATM transmission standards and for the data communications markets that address the Gigabit Ethernet, ATM and Fibre Channel transmission standards. The Company also leverages its technology to provide solutions for ATE, high-speed computing and military markets. Among the Company's many customers are Alcatel, Cisco Systems, JDS Uniphase, Juniper Networks, Lucent Technologies, Nortel Networks, Marconi and Sycamore Networks.

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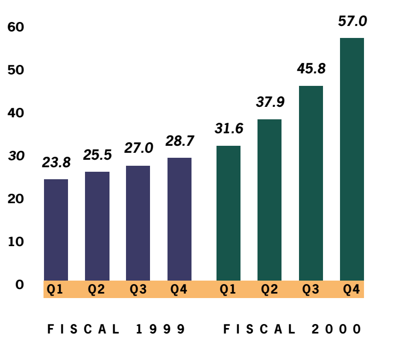
Except for historical information contained herein, the matters set forth herein are forward-looking statements that are subject to certain risks and uncertainties that could cause actual results to differ materially from those set forth in the forward-looking statements, including such factors as demand for the Company's products, fluctuations in manufacturing yields and inventory levels, integrating the marketing and operations of the Company's acquired subsidiaries, the availability of external foundry capacity, purchased parts and inventory levels, timing and amount of investments in research and development, availability of demand for integrated circuits, general overall economic conditions and the risk factors that are detailed in the Company's Annual Report on Form 10-K for the year ended March 31, 2000 and the Company's other filings with the Securities and Exchange Commission.

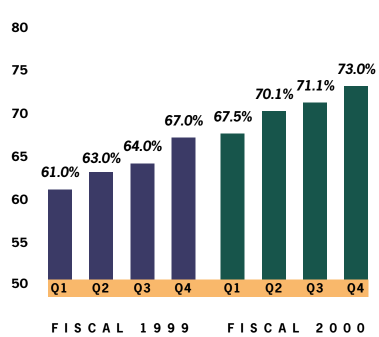
FINANCIAL HIGHLIGHTS

(in millions, except per share data)

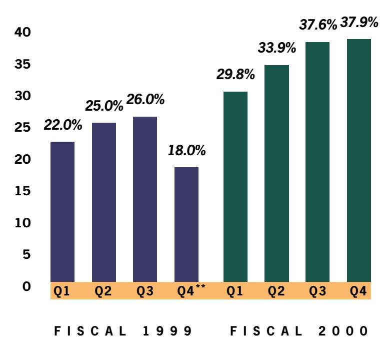
	FY 97	FY 98	FY 99*	FY 00
FOR THE FISCAL YEAR ENDED MARCH 31				
Net revenues	$ 57.5	$ 76.6	$ 105.0	$ 172.4
Operating income	$ 7.0	$ 14.8	$ 23.9	$ 61.1
Net income	$ 6.3	$ 15.2	$ 17.1	$ 48.6
Earnings per share—diluted	$ 0.09	$ 0.19	$ 0.16	$ 0.41
AT MARCH 31				
Cash, cash equivalents & short-term investments	$ 13.6	$ 67.9	$ 86.5	$ 954.6
Working capital	$ 19.4	$ 77.4	$ 103.6	$ 977.6
Total assets	$ 41.8	$ 112.8	$ 150.7	$1,046.9
Total stockholders' equity	$ 27.7	$ 91.6	$ 121.7	$1,013.8



NET REVENUES (IN MILLIONS OF DOLLARS)



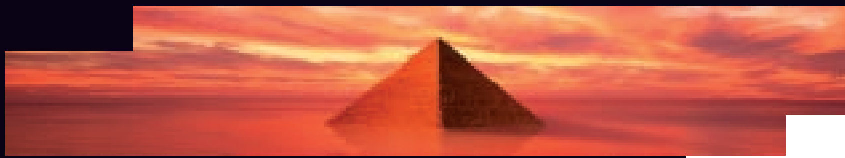
GROSS MARGIN



OPERATING MARGIN

* Amounts were adversely impacted by the merger-related costs of $2.3 million, net of tax, or $0.02 per diluted share.
** The operating margin for the fourth quarter of fiscal 1999 excluding the merger-related costs of $2.3 million was 27%.

To Our Stockholders and Friends



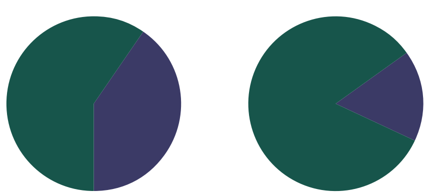
This has been the most exciting year in the history of AMCC, both in our exceptional growth and in our ability to position the Company for continued leadership in the dynamic networking market. The Company's success is especially rewarding in light of the highly turbulent nature of this industry over the past year, which has witnessed significant technology advancements, a tremendous increase in mergers and constantly shifting customer needs. This rapidly changing landscape has brought about the increased need for partners like AMCC who can provide total solutions at extremely high speeds, as well as the stability and track record of success to ensure future results—innovation that stands the test of time.

During fiscal 2000, we began realizing the full potential of our dedication to the communications industry, which has become one of the fastest growing in the world. We have also seen last year's investment in Cimaron Communications come to fruition, both in helping AMCC expand our product portfolio and in adding substantial revenues to the Company. In fact, Cimaron's quarterly bookings exceeded $10 million for the first time in the March 2000 quarter. While we experienced significantly more revenues from digital solutions over the past year, AMCC also continued to realize ongoing growth in the sales of our analog and mixed-signal solutions.

UNPRECEDENTED FINANCIAL PERFORMANCE. This tremendous growth is reflected in our financial performance, including our increased profitability, exceptional liquidity and a very strong balance sheet. Fiscal 2000's record net revenues of $172.4 million represent an increase of 64% over the $105.0 million reported in fiscal 1999. Net income for fiscal 2000 also increased to $48.6 million, or $0.41 per share, compared to $17.1 million, or $0.16 per share, in fiscal 1999.

BUILDING FOR THE FUTURE. AMCC took significant steps during fiscal 2000 to extend our leadership in the optical networking market. As OEM customers have increasingly outsourced design and production,

REVENUE BY MARKET



Q4 FY99
$28.7 MILLION

Q4 FY00
$57.0 MILLION

COMMUNICATIONS
NONCOMMUNICATIONS

TECHNOLOGY SHIFT

TODAY'S REVENUE

TODAY'S R&D SPENDING

CMOS
SiGe
BiPolar/BiCMOS

we have responded with a concerted effort to ramp capabilities to meet this new demand. The Company has focused on delivering industry-leading solutions in high-speed, high-bandwidth technology, specifically targeting advanced DWDM and optical module applications. AMCC has also continued to leverage our partnership with IBM in advanced SiGe process development, which has launched the Company into a strong leadership position for 10+ gigabit-per-second capabilities. Plus, we have expanded our capacity in all our facilities, breaking ground on a new engineering building in January 2000 and initiating development of additional sites in San Diego.

Of the many significant accomplishments we have witnessed over the past year, I am particularly proud of our ability to sustain the highest level of customer response and reliability. In the face of unprecedented demand, capacity expansion and industry activity, AMCC has continued to deliver on time, on target and on budget. In fact, our lead times have improved over the past several years. This ability to deliver on our promises has earned us the highest level of credibility—as well as several awards—from customers, investors and the industry as a whole.

One of the keys to AMCC's success this year, as always, has been our dedicated people. Due to the superior execution of our Operations group, we have been able to enhance our gross margin as we have increased capacity. We have also been very successful in attracting talented people in an extremely challenging hiring environment. Specifically, I would like to acknowledge the addition of Atiq Raza and Harvey White to AMCC's board of directors, William Bendush as our Chief Financial Officer, Steve Smith as our new Vice President of Business Development, Greg Winner as our new Vice President of Engineering and the promotion of Candace Kilburn to Vice President of Human Resources.

While AMCC has enjoyed tremendous success and growth over the past year, we realize that the coming year will bring a new set of challenges and opportunities. We believe that our financial strength, customer focus and dedication to industry-leading solutions give AMCC a unique advantage in the exciting new networking landscape.

David M. Rickey

David M. Rickey—President and Chief Executive Officer

MILESTONES 2000

MARCH 2000
Introduction of RHINE (S4804), the first highly integrated framing and data termination device to support deeply channelized OC-48 SONET/SDH traffic.

MARCH 2000
Introduction of YUKON (S4803), the first single-chip OC-48c SONET/SDH framer/mapper with integrated clock recovery and clock synthesis.

FEBRUARY 2000
Introduction of INDUS (S19201), the industry's first STS-192/STM-64 framer device to support channelized OC-192 SONET and SDH traffic.

Introduction of S3091 and S3092, the first OC-192 SiGe transmitter/receiver solutions for SONET/SDH and DWDM applications.

JANUARY 2000
Public offering of approximately 12 million shares of common stock at $71 per share.

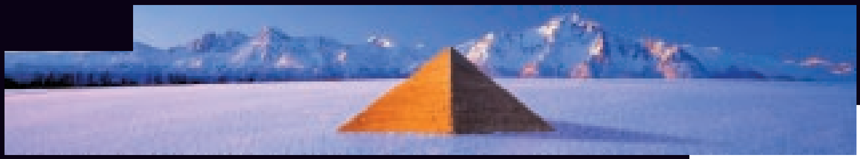
Groundbreaking of second AMCC engineering building in San Diego, California.

OCTOBER 1999
Introduction of MISSOURI (S4802), the industry's first single-chip OC-48 DWDM aggregation/ADM solution.

The optical networking industry is growing at an astonishing rate. While this is creating many exciting opportunities for companies of all sizes, it has also created several significant challenges. Increased market consolidation, for example, has created chaos for many customers looking for stability and consistent customer service. The rapid growth rate in the industry has also challenged companies to find new ways to scale capabilities to meet demand—without sacrificing customer satisfaction.

This critical ability to meet rising demands while also enhancing technology and customer relationships has been the primary focus of AMCC over the past year. By addressing customer trends towards buying complete solutions and dramatically increased OEM outsourcing, AMCC has become one of the fastest-growing companies in its

SOLID LEADERSHIP IN THE NEW NETWORKING PARADIGM



industry. The Company has approached this exploding growth cautiously, however, to ensure that it can meet these increased demands without sacrificing its reputation for superior customer service.

To better serve its markets, AMCC has accelerated the Company's technology advancements in several key areas, including initiating the development of OC-768 solutions to complement its growing OC-12, -48 and -192 product families. Plus, it has expanded its offerings to include complete solutions such as subsystem evaluation platforms to help customers better respond to time-critical market needs. AMCC has also extended its service capabilities, often partnering with customers at the beginning of the design process to better understand and respond to their unique requirements.

SEPTEMBER 1999
Introduction of S3057, the first 16-bit transceiver with multi-rate capability to OC-48.

Introduction of S3062, the industry's first multi-rate OC-48 performance monitor with forward error correction.

AUGUST 1999
Introduction of S3090, the industry's first 10 Gbps SiGe OC-192 SONET/SDH trans-impedance amplifier for use in DWDM and TDM.

JULY 1999
Introduction of S3060, the first transimpedance amplifier (TIA) on the market with both wave division multiplexing (WDM) and time division multiplexing (TDM) capabilities.

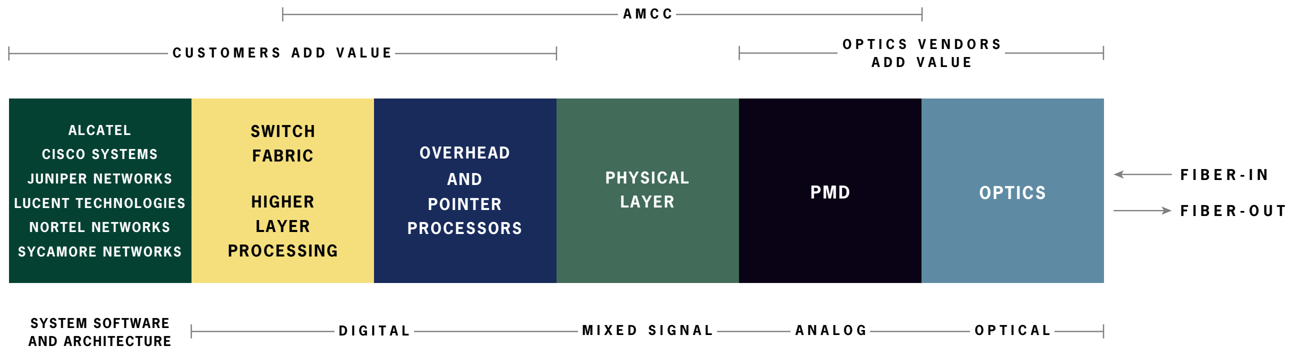
JUNE 1999
Introduction of NILE (S1202), the industry's first single-chip DS3 or ATM-to-STS-12 solution.

MAY 1999
Introduction of AMAZON (S4801), a highly integrated framing and mapping device, completing AMCC's OC-48c solution offering of PMD, PHY and framing devices.

AMCC took significant steps towards improving its internal capabilities during the past year. The Company increased its applications work force by more than 100%. AMCC also continued the expansion of its engineering department, including breaking ground on a new engineering facility in January 2000 and developing plans for additional facilities in San Diego. In addition, AMCC installed a high-speed networking infrastructure to improve communications among the Company's widespread resources.

While AMCC is extremely pleased with its progress in these key areas, it is especially proud of the Company's ability to deliver these enhanced capabilities while exceeding expectations in customer service and support. This seamless growth remains a key focus as AMCC continues to expand its product and service offerings in the years to come.

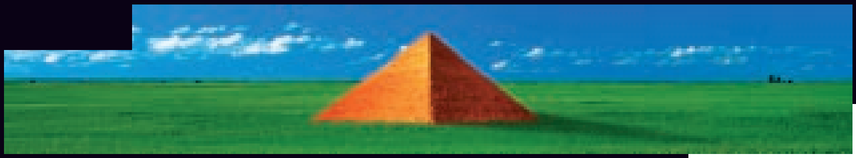
COMMUNICATIONS VALUE CHAIN



Over the past year, AMCC has witnessed a dramatic change in customer outsourcing requirements, including an increased demand for total solutions capable of helping customers improve responsiveness and time to market. The Company has responded by developing high-performance solutions that combine multiple AMCC devices with others for rapid integration into customer systems.

AMCC has also focused on building on its PMD, PHY and framer solutions to deliver an unequaled portfolio of high-speed, high-bandwidth optical networking solutions. This includes exceptional product breadth and depth in critical optical system technologies such as SONET/SDH, DWDM, ATM and optical module electronics, as well as RAID and SAN equipment.

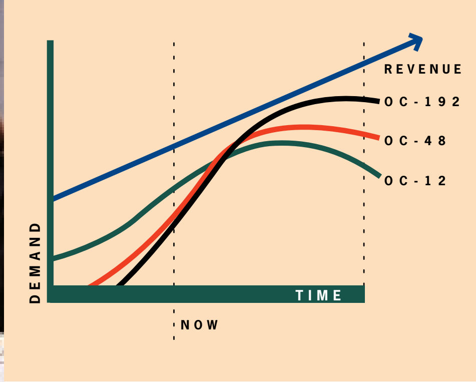
Total Solutions for a Changing Environment



In addition, AMCC has renewed its commitment to optimizing multiple silicon process technologies to meet customer requirements. This is evidenced in the Company's advancements in: CMOS as it climbs the performance and integration curves; Bipolar and BiCMOS for high-speed, high-analog applications; and SiGe technology for maximum integration and performance.

With these improved capabilities, AMCC is doing more than just helping its customers meet their increasing challenges. The Company is also enabling next-generation breakthroughs.

AMCC's design centers enable faster, more efficient results for its customers.



Simultaneous growth in multiple SONET technologies is expected to continue to fuel AMCC's tremendous success.

AMCC's comprehensive testing capabilities help ensure product quality and reliability.

"Through our close SiGe relationship with AMCC, we are helping to empower the next generation of high-performance networking."

Christine King
Vice President and Business Line Executive for Networking Technologies, IBM

The Company's industry-leading innovation is evident in AMCC's extensive patents.

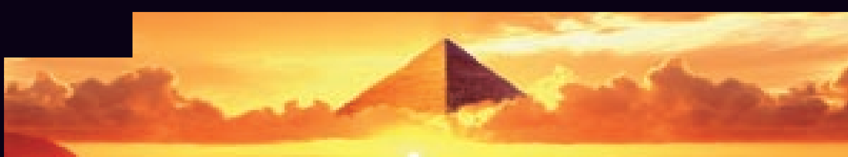
“AMCC’s high-performance components and test boards ensured we delivered first to market wirespeed OC-48c and OC-192c circuits in the new core IP infrastructures that world wide service providers networks are deploying today.”

Pradeep Sindhu
Vice Chairman, CTO and Founder, Juniper Networks, Inc.

Time to market has become the key to success in the fast-paced optical networking market, and AMCC has expanded its capabilities to provide added value to its customers in this area.

Over the past year, AMCC has extended its offerings to include reference designs and evaluation platforms that enable customers to reduce their standard debug operations from a typical time frame of three to six months to as little as one day. By providing multiple AMCC devices with other devices on a single board, the Company delivers a critical high-content tool for customers to help them quickly, effectively test and integrate applications for faster time to market. AMCC further enhanced these capabilities by providing concurrent development of multiple devices, significantly decreasing design time.

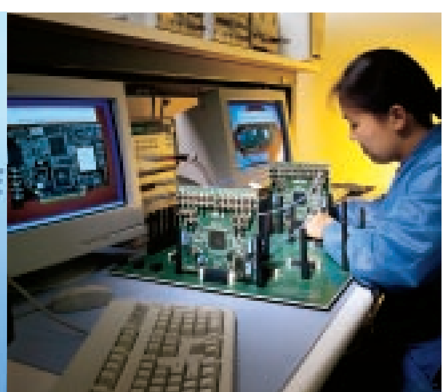
REALIZING THE VISION OF ENHANCED TIME TO MARKET



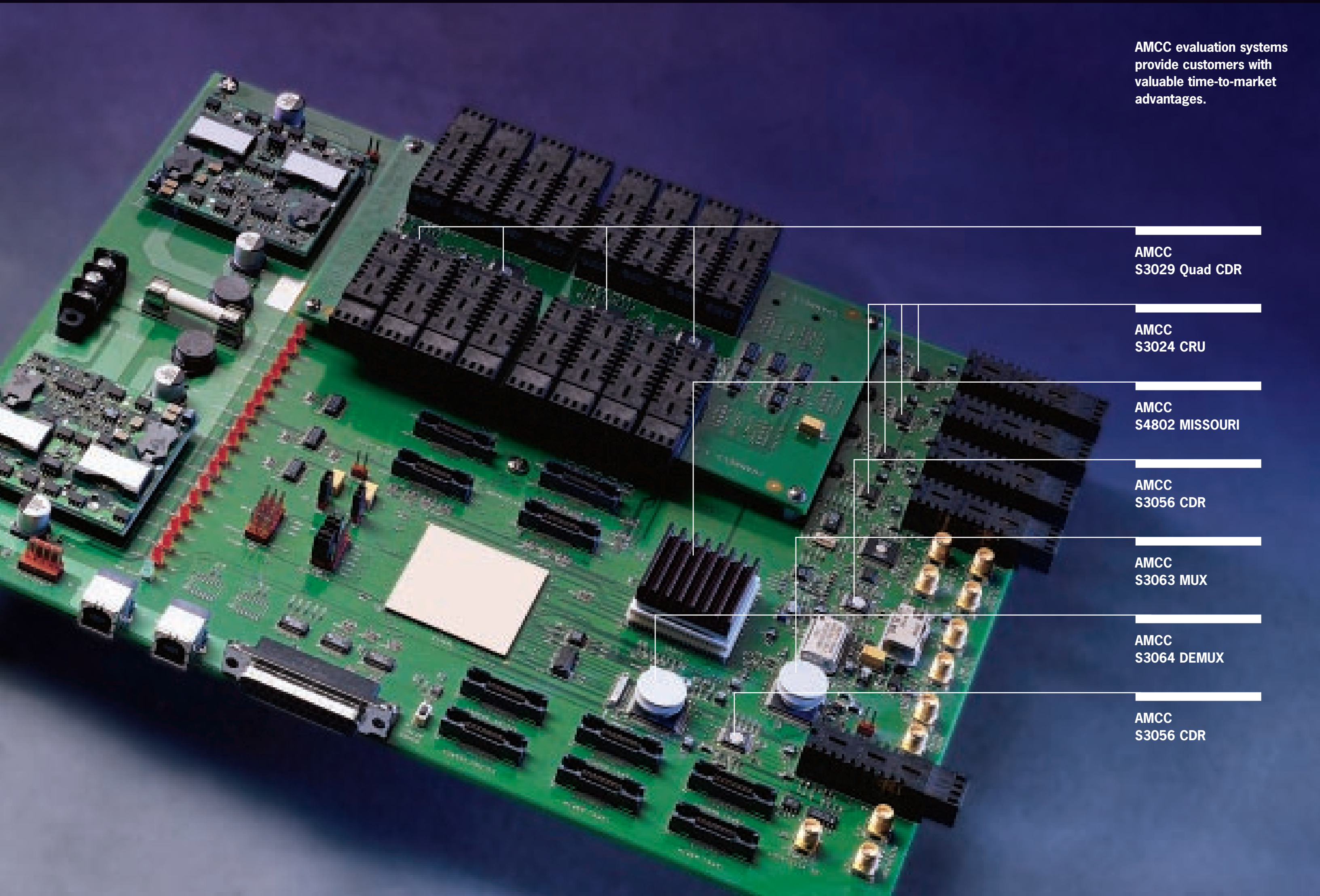
AMCC is dedicated to building on these capabilities during the coming year to add unique value to every customer it serves. As customer needs continue to grow and evolve, AMCC believes it is this focus on technology, stability and customer support that will strengthen the Company’s position as a leader in the exciting new world of optical networking.

Engineers test an electrical-to-optical signal conversion in AMCC’s advanced jitter center.

AMCC’s state-of-the-art testing capabilities enable automated evaluation of total system solutions.



AMCC works closely with customers throughout the design process to optimize results.



AMCC evaluation systems provide customers with valuable time-to-market advantages.

GLOSSARY

ADM (ADD/DROP MULTIPLEXER) A SONET/SDH term for a device that can either insert or drop DS-1, DS-2 and DS-3 channels or SONET signals into/from a SONET bit stream.

ATM (ASYNCHRONOUS TRANSFER MODE) Very high-speed transmission technology. ATM is a high-bandwidth, low-delay, connection-oriented, packet-like switching and multiplexing technique.

ATE (AUTOMATED TEST EQUIPMENT) Equipment that is used for the comprehensive testing of ICs, printed circuit boards and electronic systems. Generally, ATE equipment requires ICs that operate at faster speeds and have more precise timing than the ICs being tested.

BICMOS A process that combines the speed of bipolar technology with the low power capability of CMOS technology.

BIPOLAR A process technology that employs silicon as the substrate upon which to fabricate circuits. The circuits are based on fast-switching bipolar transistor structures.

CMOS (COMPLEMENTARY METAL OXIDE SEMICONDUCTOR) A process technology that employs silicon as the substrate upon which to fabricate circuits. The CMOS integrated circuit design is based on MOS Field Effect Transistor (FET) structures. CMOS technology offers low power consumption and small component dimensions.

DATA COMMUNICATIONS The transfer of encoded information over electrical or optical transmission systems between points.

DWDM (DENSE WAVELENGTH DIVISION MULTIPLEXING) A high-speed means of increasing the capacity of SONET fiber-optic transmission systems through the multiplexing of multiple wavelengths of light.

DS (DIGITAL SERVICE) A hierarchy of digital signal speeds used to classify the capacities of lines and trunks. The fundamental speed level is DS-0 (64 kilobits per second) and the highest is DS-4 (about 274 million bits per second).

FIBRE CHANNEL A set of standards developed by ANSI (American National Standards Institute). Fibre Channel provides a practical and inexpensive means of rapidly transferring data between workstations, mainframes, supercomputers, desktop computers, storage devices, displays and other peripherals.

FRAMER A device that adjusts the timing of the receiver component to coincide with that of the receiving framing signals.

GIGABIT ETHERNET A local area network standard used for connecting computers, printers, workstations, terminals, servers, etc. within the same building or campus. Gigabit Ethernet operates over coaxial and fiber optic cable at speeds of 1.25 Gbps.

Gbps Gigabits per second.

MAPPER A device that assigns a logical association of one set of values, such as addresses on one network, with quantities or values of another set, such as devices on another network.

MIXED-SIGNAL IC Monolithic ICs that contain both digital and analog circuitry.

OC-3,-12,-48,-192 (OPTICAL CARRIER LEVEL-3,-12,-48,-192) A SONET optical signal. SONET data rates of 155 Mbps, 622 Mbps, 2.5 Gbps and 9.6 Gbps, respectively.

PHY PHYsical, as in physical specifications. OSI Physical Layer: The physical layer provides for transmission of cells over a physical medium connecting two ATM devices. This layer is comprised of two sublayers: PMD (see below) and TC (Transmission Convergence).

PMD (PHYSICAL MEDIA DEPENDENT) The sublayer defining the parameters at the lowest level, such as speed of the bits on the media.

RAID (REDUNDANT ARRAY OF INEXPENSIVE DISKS) Several disk drives placed in a single housing. Data can be written over the disk drives in such a way that if one or more of the drives is lost, all data will be retained.

SILICON Traditional semiconducting material used for fabricating ICs.

SiGe (SILICON GERMANIUM) A process technology that employs a Germanium-doped silicon substrate upon which to fabricate circuits. This enables much higher data rates than are possible with traditional silicon processes.

SAN (STORAGE AREA NETWORK) A short-distance data communications network used to link elements within a storage environment.

SDH (SYNCHRONOUS DIGITAL HIERARCHY) A set of standard fiber optic–based serial standards very similar to SONET used throughout the world except in North America and Japan.

SONET (SYNCHRONOUS OPTICAL NETWORK) SONET is an optical interface standard used in North America and Japan that allows interoperability of transmission products from multiple vendors very similar to SDH. The standard specifies a family of fiber-optic transmission rates from 52 Mbps to 10 Gbps, created to provide the flexibility needed to transport many digital signals with different capacities and to provide a design standard for manufacturers.

STS (SYNCHRONOUS TRANSPORT SIGNAL) The electrical equivalent of SONET OC level. The signal begins as electrical and is converted into optical prior to presentation to the fiber optic medium.

TELECOMMUNICATIONS The transmission, reception and the switching of signals, such as electrical or optical, by wire, fiber or electromagnetic means.

TDM (TIME DIVISION MULTIPLEX) A technique for transmitting a number of separate data, voice and/or video signals simultaneously over one communications medium by quickly interleaving a piece of each signal one after another.

WDM (WAVELENGTH DIVISION MULTIPLEX) A technique in fiber-optic transmission for multiplexing light wavelengths in order to increase the capacity of the system.

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SELECTED CONSOLIDATED FINANCIAL DATA

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	March 31,				
(in thousands, except per share data)	1996	1997	1998	1999	2000
Net revenues	$50,264	$57,468	$76,618	$105,000	$172,352
Increase in revenues over prior year	7%	14%	33%	37%	64%
Cost of revenues	34,169	30,057	34,321	37,937	50,218
Gross profit	16,095	27,411	42,297	67,063	122,134
% of revenues	32%	48%	55%	64%	71%
Research and development	8,283	7,870	13,268	22,472	32,815
% of revenues	16%	14%	17%	21%	19%
Selling, general and administrative	11,232	12,537	14,278	18,325	28,199
% of revenues	22%	22%	19%	17%	16%
Merger-related costs	—	—	—	2,350	—
% of revenues	—	—	—	2%	—
Total operating expenses	19,515	20,407	27,546	43,147	61,014
% of revenues	39%	36%	36%	41%	35%
Operating income (loss)	(3,420)	7,004	14,751	23,916	61,120
% of revenues	(7%)	12%	19%	23%	35%
Interest income (expense), net	(242)	(29)	871	3,450	12,872
Income (loss) before income taxes	(3,662)	6,975	15,622	27,366	73,992
% of revenues	(7%)	12%	20%	26%	43%
Provision for income taxes	32	659	406	10,233	25,367
Effective income tax rate	0%	10%	3%	37%	34%
Net income (loss)	$ (3,694)	$ 6,316	$15,216	$ 17,133	$ 48,625
Increase in net income over prior year	NM	NM	141%	13%	184%
% of revenues	(7%)	11%	20%	16%	28%
Diluted earnings (loss) per share	$ (0.05)	$ 0.09	$ 0.19	$ 0.16	$ 0.41
Shares used in calculating diluted earnings (loss) per share	69,576	71,628	81,176	109,720	119,152

NM=Not Meaningful

SELECTED CONSOLIDATED FINANCIAL DATA

CONDENSED CONSOLIDATED BALANCE SHEETS

	March 31,				
(in thousands)	1996	1997	1998	1999	2000
Assets					
Current assets:					
Cash, cash equivalents and short-term investments	$ 8,818	$13,597	$ 67,896	$ 86,540	$ 954,551
Accounts receivable, net	9,476	8,418	12,179	19,275	25,459
Inventories	6,836	7,530	8,185	9,813	10,925
Other current assets	724	698	6,266	9,392	14,469
Total current assets	25,854	30,243	94,526	125,020	1,005,404
Property and equipment, net	11,929	10,768	17,218	23,128	37,842
Other assets	53	803	1,090	2,507	3,636
Total assets	$37,836	$41,814	$112,834	$150,655	$1,046,882
Liabilities and Stockholders' Equity					
Current liabilities:					
Accounts payable	$ 3,981	$ 2,428	$ 5,215	$ 5,131	$ 8,818
Other current liabilities	4,252	5,789	9,274	13,335	16,842
Current portion of long-term debt and capital lease obligations	3,644	2,662	2,620	2,937	2,123
Total current liabilities	11,877	10,879	17,109	21,403	27,783
Long-term debt and capital lease obligations, less current portion	4,447	3,192	4,091	7,558	5,294
Stockholders' equity	21,512	27,743	91,634	121,694	1,013,805
Total liabilities and stockholders' equity	$37,836	$41,814	$112,834	$150,655	$1,046,882

OTHER FINANCIAL INFORMATION

	March 31,				
(in thousands, except employee data)	1996	1997	1998	1999	2000
Working capital	$13,977	$19,364	$ 77,417	$103,617	$ 977,621
Total long-term debt and capital lease obligations	$ 8,091	$ 5,854	$ 6,711	$ 10,495	$ 7,417
Total long-term debt and capital lease obligations to equity ratio	38%	21%	7%	9%	1%
Additions to property, plant and equipment	$ 2,627	$ 4,055	$ 11,624	$ 16,490	$ 22,753
% of revenues	5%	7%	15%	16%	13%
Depreciation and amortization	$ 5,311	$ 5,185	$ 5,174	$ 7,045	$ 8,039
% of revenues	11%	9%	7%	7%	5%
Number of employees at end of year	251	256	320	361	477

SUPPLEMENTARY FINANCIAL INFORMATION (UNAUDITED)

QUARTERLY FINANCIAL INFORMATION FOR FISCAL 1999 AND FISCAL 2000

(in thousands, except per share data)	Fiscal Year Ended March 31, 1999				2000			
Fiscal quarter	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Net revenues	$23,814	$25,472	$26,972	$28,742	$31,643	$37,898	$45,762	$57,049
Cost of revenues	9,399	9,347	9,669	9,522	10,283	11,326	13,209	15,400
Gross profit	14,415	16,125	17,303	19,220	21,360	26,572	32,553	41,649
% of revenues	61%	63%	64%	67%	68%	70%	71%	73%
Operating expenses:								
Research and development	4,893	5,454	5,847	6,278	6,354	7,194	8,281	10,986
Selling, general and administrative	4,164	4,296	4,573	5,292	5,569	6,548	7,061	9,021
Merger-related costs	—	—	—	2,350	—	—	—	—
Total operating expenses	9,057	9,750	10,420	13,920	11,923	13,742	15,342	20,007
% of revenues	38%	38%	39%	48%	38%	36%	34%	35%
Operating income	5,358	6,375	6,883	5,300	9,437	12,830	17,211	21,642
% of revenues	22%	25%	26%	18%	30%	34%	38%	38%
Interest income, net	853	877	883	837	884	1,005	1,225	9,758
Income before income taxes	6,211	7,252	7,766	6,137	10,321	13,835	18,436	31,400
% of revenues	26%	28%	29%	21%	33%	37%	40%	55%
Provision for income taxes	2,227	2,584	2,646	2,776	3,535	4,738	6,324	10,770
Effective income tax rate	36%	36%	34%	45%	34%	34%	34%	34%
Net income	$ 3,984	$ 4,668	$ 5,120	$ 3,361	$ 6,786	$ 9,097	$12,112	$20,630
% of revenues	17%	18%	19%	12%	21%	24%	26%	36%
Diluted earnings per share	$ 0.04	$ 0.04	$ 0.05	$ 0.03	$ 0.06	$ 0.08	$ 0.10	$ 0.16
Shares used in calculating diluted earnings per share	106,660	109,184	110,476	112,560	114,112	115,864	117,608	129,024

MARKET PRICE OF COMMON STOCK

Stock Prices	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
High	$ 7.50	$ 7.50	$ 10.16	$ 11.69	$ 21.25	$ 33.50	$ 64.19	$158.87
Low	$ 4.41	$ 3.22	$ 3.06	$ 8.22	$ 10.28	$ 19.06	$ 27.19	$ 50.53
End	$ 6.47	$ 3.72	$ 8.47	$ 10.69	$ 20.56	$ 28.50	$ 62.63	$150.06

The Company's common stock is traded on the Nasdaq Market System ("Nasdaq") under the symbol AMCC. The table above sets forth, for the fiscal quarters indicated, the high, low and quarter-end market prices of the common stock as reported by Nasdaq (rounded to the nearest cent). The Company has never paid dividends on its common stock and presently intends to continue this policy.

The following discussion of the financial condition and results of our operations should be read in conjunction with the consolidated financial statements and notes thereto included elsewhere in this Annual Report and in conjunction with the Company's Annual Report on Form 10-K. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors, including, but not limited to, those described in the "Risk Factors" in the Company's Annual Report on Form 10-K. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect our analysis only as of the date hereof. We assume no obligation to update these forward-looking statements to reflect actual results or changes in factors or assumptions affecting such forward-looking statements.

OVERVIEW

AMCC designs, develops, manufactures and markets high-performance, high-bandwidth silicon solutions for the world's optical networks. We utilize a combination of high-frequency analog, mixed-signal and digital design expertise coupled with system-level knowledge and multiple silicon process technologies to offer integrated circuit, or IC, products that enable the transport of voice and data over fiber optic networks. Our products target the SONET/SDH, ATM, Gigabit Ethernet and Fibre Channel semiconductor markets. In addition, we recently introduced silicon ICs targeted for DWDM systems. We provide our customers with complete silicon IC solutions ranging from physical media dependent devices, such as laser drivers, and physical layer products, such as transceivers, to overhead processor products, such as framers and mappers. Our products span data rates from OC-3, or 155 megabits per second, to OC-192, or 10 gigabits per second. We also supply silicon ICs for the automated test equipment, or ATE, high-speed computing and military markets.

RESULTS OF OPERATIONS

The following table sets forth certain selected consolidated statement of operations data in dollars and as a percentage of revenues for the periods indicated:

	Fiscal Year Ended March 31,					
(in thousands, except per share data)	1998		1999		2000	
Net revenues	$76,618	100.0%	$105,000	100.0%	$172,352	100.0%
Cost of revenues	34,321	44.8	37,937	36.1	50,218	29.1
Gross profit	42,297	55.2	67,063	63.9	122,134	70.9
Operating expenses:						
Research and development	13,268	17.3	22,472	21.4	32,815	19.0
Selling, general and administrative	14,278	18.6	18,325	17.5	28,199	16.4
Merger-related costs	—	—	2,350	2.2	—	—
Total operating expenses	27,546	35.9	43,147	41.1	61,014	35.4
Operating income	14,751	19.3	23,916	22.8	61,120	35.5
Net interest income	871	1.1	3,450	3.3	12,872	7.5
Income before provision for income taxes	15,622	20.4	27,366	26.1	73,992	42.9
Provision for income taxes	406	0.5	10,233	9.8	25,367	14.7
Net income	$15,216	19.9%	$ 17,133	16.3%	$ 48,625	28.2%
Diluted earnings per share:						
Earnings per share	$ 0.19		$ 0.16		$ 0.41	
Shares used in calculating diluted earnings per share	81,176		109,720		119,152	

COMPARISON OF THE YEAR ENDED MARCH 31, 2000 TO THE YEAR ENDED MARCH 31, 1999

On September 9, 1999 and again on March 23, 2000, we effected a two-for-one stock split (in the form of a 100% stock dividend); accordingly, all share and per share amounts in this discussion of the results of operations have been restated to reflect the stock splits.

NET REVENUES. Net revenues for the year ended March 31, 2000 were approximately $172.4 million, representing an increase of 64% over net revenues of approximately $105.0 million for the year ended March 31, 1999. Revenues from sales of communications products increased 141% to $138.1 million or 80% of net revenues for the year ended March 31, 2000 from $57.3 million or 55% of net revenues for the year ended March 31, 1999. This increase reflects both unit growth in shipments of existing products, and the introduction of new products for these markets. Revenues from sales of non-communications products, consisting of the ATE, high-speed computing and military markets, decreased from 45% of net revenues for the year ended March 31, 1999 to 20% of net revenues for the year ended March 31, 2000. Sales to Nortel, including their contract manufacturers, accounted for 38% and 20% of net revenues for the years ended March 31, 2000 and 1999, respectively. In the years ended March 31, 2000 and 1999, Insight Electronics, Inc., our domestic distributor, accounted for 17% and 13% of net revenues, respectively. Sales outside of North America accounted for 23% and 24% of net revenues for the years ended March 31, 2000 and 1999, respectively.

GROSS MARGIN. Gross margin was 70.9% for the year ended March 31, 2000, as compared to 63.9% for the year ended March 31, 1999. The increase in gross margin resulted primarily from increased utilization of our wafer fabrication facility. Our gross margin is primarily impacted by factory utilization, manufacturing yields, product mix and the timing of depreciation expense and other costs associated with expanding our manufacturing capacity. Our strategy is to maximize factory utilization whenever possible, maintain or improve our manufacturing yields and focus on the development and sales of high-performance products that can have higher gross margins. There can be no assurance, however, that we will be successful in achieving these objectives. In addition, these factors can vary significantly from quarter to quarter, which would likely result in fluctuations in quarterly gross margin and net income.

RESEARCH AND DEVELOPMENT. Research and development ("R&D") expenses increased 46% to approximately $32.8 million, or 19% of revenues, for the year ended March 31, 2000 from approximately $22.5 million, or 21.4% of net revenues, for the year ended March 31, 1999. The increase in R&D expenses in absolute dollars is a reflection of our aggressive product development efforts. Factors contributing to the increase in R&D expenses are a $4.2 million increase in compensation-related costs as a result of both increased headcount and increased average compensation costs, a $2.8 million increase in cost of design tools and software, and a $3.0 million increase in prototyping and outside contractor costs. We believe that a continued commitment to R&D is vital to maintain a leadership position with innovative communications products. Accordingly, we expect R&D expenses to increase in absolute dollars and possibly as a percentage of net revenues in the future. Currently, R&D expenses are focused on the development of products and processes for the communications markets, and we expect to continue this focus.

SELLING, GENERAL AND ADMINISTRATIVE. Selling, general and administrative ("SG&A") expenses were approximately $28.2 million, or 16.4% of revenues, for the year ended March 31, 2000, as compared to approximately $18.3 million, or 17.5% of net revenues, for the year ended March 31, 1999. The increase in SG&A expenses for the year ended March 31, 2000 was primarily due to a $4.4 million increase in personnel and travel costs, a $1.0 million increase in commissions earned by sales representatives, a $500,000 increase in product promotion expenses and a $1.1 million increase in professional fees related to legal, accounting and strategic developments. The decrease in SG&A expenses as a percentage of net revenues for the year ended March 31, 2000 was a result of net revenues increasing more rapidly than SG&A expenses. We expect SG&A expenses to increase in the future due principally to additional staffing in our sales and marketing departments, as well as increased spending on information technology and product promotion.

OPERATING MARGIN. Our operating margin increased to 35.5% of net revenues for the year ended March 31, 2000, compared to 22.8% for the year ended March 31, 1999, principally as a result of the increase in gross margin and the decrease in R&D and SG&A expenses as a percentage of net revenues.

NET INTEREST INCOME. Net interest income increased to $12.9 million for the year ended March 31, 2000, compared to $3.5 million for the year ended March 31, 1999. This increase was due principally to higher interest income from larger cash and short-term investment balances generated from operations and the net proceeds of approximately $815 million from our public offering completed in January 2000.

INCOME TAXES. Our annual effective tax rate for the year ended March 31, 2000 was 34.3%, compared to an effective tax rate of 37.4% for the year ended March 31, 1999. The effective tax rate for the year ended March 31, 2000 was decreased from statutory rates due to the utilization of certain federal and state tax credits. The rate for fiscal 2000 was lower than the prior year due to the nondeductibility of certain merger-related costs incurred in fiscal 1999.

DILUTED EARNINGS PER SHARE. Diluted earnings per share increased 156% to $0.41 in the year ended March 31, 2000, compared to $0.16 for the year ended March 31, 1999.

DEFERRED COMPENSATION. In connection with the grant of certain stock options to employees during the six months ended September 30, 1997, we recorded aggregate deferred compensation of $599,000, representing the difference between the deemed fair value of the common stock at the date of grant for accounting purposes and the option exercise price of such options. Additionally, during the year ended March 31, 1999, we recorded deferred compensation of $2.5 million related to restricted stock and options granted to founders and employees of Cimaron Communications Corporation ("Cimaron"). Such amounts are presented as a reduction of stockholders' equity and amortized ratably over the vesting period of the applicable options. Amortization of deferred compensation recorded for the years ended March 31, 2000 and 1999 was $611,000 and $860,000, respectively. We currently expect to record amortization of deferred compensation with respect to the restricted stock and option grants of approximately $521,000, $412,000, $330,000 and $180,000 during the fiscal years ended March 31, 2001, 2002, 2003 and 2004, respectively.

BACKLOG. Our sales are made primarily pursuant to standard purchase orders for delivery of products. Quantities of our products to be delivered and delivery schedules are frequently revised to reflect changes in customer needs, and customer orders can be canceled or rescheduled without significant penalty to the customer. For these reasons, our backlog as of any particular date is not representative of actual sales for any succeeding period, and therefore we believe that backlog is not a good indicator of future revenue. Our backlog for products requested to be shipped in the next six months was $86.1 million on March 31, 2000 compared to $38.2 million on March 31, 1999.

COMPARISON OF THE YEAR ENDED MARCH 31, 1999 TO THE YEAR ENDED MARCH 31, 1998

NET REVENUES. Net revenues for the year ended March 31, 1999 were approximately $105.0 million, representing an increase of 37% over net revenues of approximately $76.6 million for the year ended March 31, 1998. Revenues from sales of communications products increased 56% to $57.3 million or 55% of net revenues for the year ended March 31, 1999 from $36.6 million or 48% of net revenues for the year ended March 31, 1998. This increase reflects both unit growth in shipments of existing products, and the introduction of new products for these markets. Revenues from sales of products to other markets, consisting of the ATE, high-speed computing and military markets, decreased from 52% of net revenues for the year ended March 31, 1998 to 45% of net revenues for the year ended March 31, 1999, although revenues from sales to these other markets increased in absolute dollars. The increase in absolute dollars in revenues attributed to these other markets was primarily due to $10.0 million of shipments in the year ended March 31, 1999, relating to the partial fulfillment of an end-of-life order from Raytheon Systems Co. Total sales to Raytheon Systems Co. accounted for 16% of net revenues in the year ended March 31, 1999 and were less than 10% of net revenues in the year ended March 31, 1998. Sales to Nortel accounted for 20% and 21% of net revenues for the years ended March 31, 1999 and 1998, respectively. In the years ended March 31, 1999 and 1998, Insight Electronics, Inc. accounted for 13%

and 11% of net revenues, respectively. Sales outside of North America accounted for 24% and 23% of net revenues for the years ended March 31, 1999 and 1998, respectively.

GROSS MARGIN. Gross margin was 63.9% for the year ended March 31, 1999, as compared to 55.2% for the year ended March 31, 1998. The increase in gross margin resulted from increased utilization of our wafer fabrication facility.

RESEARCH AND DEVELOPMENT. R&D expenses increased 69% to approximately $22.5 million, or 21.4% of revenues, for the year ended March 31, 1999 from approximately $13.3 million, or 17.3% of net revenues, for the year ended March 31, 1998. The substantial increase in R&D expenses was due to our acquisition of Cimaron, which incurred approximately $2.5 million of R&D expenses during its fiscal year, and accelerated new product and process development efforts, including a $3.2 million increase in compensation costs and a $3.9 million increase in prototyping and outside contractor costs.

SELLING, GENERAL AND ADMINISTRATIVE. SG&A expenses were approximately $18.3 million, or 17.5% of revenues, for the year ended March 31, 1999, as compared to approximately $14.3 million, or 18.6% of net revenues, for the year ended March 31, 1998. The increase in SG&A expenses for the year ended March 31, 1999 was primarily due to a $2.1 million increase in personnel costs, a $500,000 increase in commissions earned by third-party sales representatives, a $500,000 increase in product promotion expenses and a $400,000 increase in legal and accounting costs. A portion of such increases was also due to our acquisition of Cimaron. The decrease in SG&A expenses as a percentage of net revenues for the year ended March 31, 1999 was a result of net revenues increasing more rapidly than SG&A expenses.

MERGER-RELATED COSTS. In March 1999, we acquired all of the outstanding common stock and common stock equivalents of Cimaron in exchange for approximately 12 million shares of our common stock. The acquisition has been accounted for using the pooling-of-interests method of accounting. Costs associated with this merger of $2.3 million, or $0.02 per diluted share, were expensed in the quarter ended March 31, 1999.

OPERATING MARGIN. Our operating margin increased to 22.8% of net revenues for the year ended March 31, 1999, compared to 19.3% for the year ended March 31, 1998, principally as a result of the increase in gross margin and decrease in SG&A expenses as a percentage of net revenues, partially offset by the increase in R&D expenses as a percentage of net revenues

NET INTEREST INCOME. Net interest income increased to $3.5 million for the year ended March 31, 1999, compared to $871,000 for the year ended March 31, 1998. This increase was due principally to higher interest income from larger cash and short-term investment balances generated from operations and the proceeds from our public offerings completed during the second half of the year ended March 31, 1998.

INCOME TAXES. Our annual effective tax rate for the year ended March 31, 1999, which approximated statutory rates, was 37.4%, compared to an effective tax rate of 2.6% for the year ended March 31, 1998. The effective tax rate for the year ended March 31, 1998 was decreased from statutory rates due to the reduction of a valuation allowance recorded against deferred tax assets for net operating loss carryforwards and credits.

DILUTED EARNINGS PER SHARE. Diluted earnings per share decreased 16% to $0.16 in the year ended March 31, 1999, compared to $0.19 for the year ended March 31, 1998. The decrease reflects the merger-related costs of $2.3 million, the increase in the effective tax rate and the greater number of shares outstanding, due in part to the Cimaron acquisition, offset in part by the increase in operating income in fiscal 1999.

DEFERRED COMPENSATION. Amortization of deferred compensation recorded for the years ended March 31, 1998 and 1999 was $127,000 and $860,000, respectively.

BACKLOG. Our backlog for products requested to be shipped and nonrecurring engineering services to be completed in the next six months was $38.2 million on March 31, 1999, compared to $30.1 million on March 31, 1998. Included in backlog at March 31, 1999 was the $9.3 million balance of an order received from Raytheon Systems Co. related to an end-of-life buy for integrated circuits used in its high-speed radar systems.

LIQUIDITY AND CAPITAL RESOURCES

Our principal source of liquidity as of March 31, 2000 consisted of $954.6 million in cash, cash equivalents and short-term investments. Working capital as of March 31, 2000 was $977.6 million, compared to $103.6 million as of March 31, 1999. This increase in working capital was primarily due to the proceeds of our public stock offering of approximately $815 million and approximately $65 million of cash provided by our operating activities, offset by the purchase of property, equipment and other assets.

For the years ended March 31, 2000, 1999 and 1998, net cash provided by operating activities was $65.3 million, $22.0 million and $16.9 million, respectively. Net cash provided by operating activities in fiscal 2000 and 1999 primarily reflected net income before depreciation and amortization expense and the tax benefit of disqualified dispositions, offset by increases in accounts receivable, inventories and other assets.

Capital expenditures totaled $22.8 million, $16.5 million and $11.6 for the years ended March 31, 2000, 1999 and 1998, respectively, of which $0, $6.7 million and $3.6 million for the years ended March 31, 2000, 1999 and 1998, respectively, were financed using debt or capital leases. In fiscal year 2001, we expect to incur approximately $36 million in capital expenditures for manufacturing and test equipment, computer hardware and software and leasehold improvements for our new engineering facility.

We are exploring alternatives for the expansion of our manufacturing capacity, which would likely occur after fiscal year 2001, including further expansion of our current wafer fabrication facility, building a new wafer fabrication facility, purchasing a wafer fabrication facility and/or entering into strategic relationships to obtain additional capacity. Any of these alternatives could require a significant investment by us and there can be no assurance that any of the alternatives for expansion of our manufacturing capacity will be available on a timely basis or at all.

In January 2000, we completed the public offering of approximately 12 million shares of common stock, raising net proceeds of approximately $815 million. We intend to use the proceeds of the offering for working capital and general corporate purposes. In addition, we may use a portion of the net proceeds to acquire businesses or technologies.

We believe that our available cash, cash equivalents and short-term investments and cash generated from operations, will be sufficient to meet our capital requirements for the next 12 months, although we could elect or could be required to raise additional capital during such period. There can be no assurance that such additional debt or equity financing will be available on commercially reasonable terms or at all.

MARKET RISK

At March 31, 2000, our investment portfolio includes fixed-income securities of $784.4 million. These securities are subject to interest rate risk and will decline in value if interest rates increase. Because the maturity dates of our investment portfolio are relatively short, an immediate 100 basis point increase in interest rates would have no material impact on our financial condition or results of operations.

We generally conduct business, including sales to foreign customers, in U.S. dollars and, as a result, we have limited foreign currency exchange rate risk. The effect of an immediate 10 percent change in foreign exchange rates would not have a material impact on our financial condition or results of operations.

RISK FACTORS

Our results of operations have varied significantly in the past and may continue to do so in the future. These variations have been, and may in the future, be due to a number of factors, any of which could have a material adverse effect on our business, financial condition and results of operations. These factors include, but are not limited to: the rescheduling or cancellation of orders by customers; fluctuations in the timing and amount of customer requests for product shipments; fluctuations in manufacturing yields and inventory levels; changes in product mix of sales; our ability to introduce new products and technologies on a timely basis; the introduction of products and technologies by our competitors; the availability of external foundry capacity, purchased parts and raw materials; competitive pressures on selling prices; the timing of investments in research and development; market acceptance of products and the products of our customers; the ability of our customers to obtain components from their other suppliers; the timing of depreciation and other expenses to be incurred by us in connection with the increase of our manufacturing capacity; the amount and timing of the costs associated with payroll taxes related to the exercise of employee stock options; the timing and amount of recruiting and relocation expenses, prototyping costs and product promotional expenses; costs associated with future litigation, if any, including but not limited to, litigation relating to the use or ownership of intellectual property; costs associated with compliance with applicable environmental regulations; general semiconductor industry conditions; and general economic conditions. Historically, average selling prices in the semiconductor industry have decreased over the life of a product, and as a result, the average selling prices of our products may be subject to significant pricing pressures in the future. Because we are continuing to increase our operating expenses for personnel and new product development, and because we are limited in our ability to reduce expenses quickly in response to any revenue short falls, our business, financial condition and operating results would be adversely affected if increased sales are not achieved. In addition, our operating results may be below the expectations of public market analysts or investors, which could have a material adverse effect on the market price of the common stock.

CONSOLIDATED BALANCE SHEETS

(in thousands, except par value)	March 31, 1999	March 31, 2000
Assets		
Current assets:		
Cash and cash equivalents	$ 13,530	$ 170,102
Short-term investments–available-for-sale	73,010	784,449
Accounts receivable, net of allowance for doubtful accounts of $177 and $314 at March 31, 1999 and 2000, respectively	19,275	25,459
Inventories	9,813	10,925
Deferred income taxes	4,573	4,148
Current portion of notes receivable from officers and employees	815	81
Other current assets	4,004	10,240
Total current assets	125,020	1,005,404
Property and equipment, net	23,128	37,842
Notes receivable from officers and employees, less current portion	100	48
Other assets	2,407	3,588
Total assets	$150,655	$1,046,882
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 5,131	$ 8,818
Accrued payroll and related expenses	4,689	7,618
Other accrued liabilities	7,207	6,448
Deferred revenue	1,439	2,776
Current portion of long-term debt	1,862	1,394
Current portion of capital lease obligations	1,075	729
Total current liabilities	21,403	27,783
Long-term debt, less current portion	4,995	3,599
Long-term capital lease obligations, less current portion	2,563	1,695
Commitments and contingencies (Notes 7 and 10)		
Stockholders' equity:		
Preferred stock, $0.01 par value:		
Authorized shares–2,000, none issued and outstanding	—	—
Common stock, $0.01 par value:		
Authorized shares–180,000 at March 31, 2000		
Issued and outstanding shares–106,448 and 121,842 at March 31, 1999 and 2000, respectively	1,064	1,218
Additional paid-in capital	101,727	944,512
Deferred compensation, net	(2,123)	(1,443)
Accumulated other comprehensive income (loss)	(33)	(166)
Retained earnings	21,514	70,139
Notes receivable from stockholders	(455)	(455)
Total stockholders' equity	121,694	1,013,805
Total liabilities and stockholders' equity	$150,655	$1,046,882

See accompanying notes.

CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except per share data)	Fiscal Year Ended March 31, 1998	1999	2000
Net revenues	$76,618	$105,000	$172,352
Cost of revenues	34,321	37,937	50,218
Gross profit	42,297	67,063	122,134
Operating expenses:			
Research and development	13,268	22,472	32,815
Selling, general and administrative	14,278	18,325	28,199
Merger-related costs	—	2,350	—
Total operating expenses	27,546	43,147	61,014
Operating income	14,751	23,916	61,120
Interest income, net	871	3,450	12,872
Income before income taxes	15,622	27,366	73,992
Provision for income taxes	406	10,233	25,367
Net income	$15,216	$ 17,133	$ 48,625
Basic earnings per share:			
Earnings per share	$ 0.36	$ 0.17	$ 0.45
Shares used in calculating basic earnings per share	42,376	98,056	107,820
Diluted earnings per share:			
Earnings per share	$ 0.19	$ 0.16	$ 0.41
Shares used in calculating diluted earnings per share	81,176	109,720	119,152

See accompanying notes.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(in thousands)	Convertible Preferred Stock Shares	Convertible Preferred Stock Amount	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Deferred Compensation	Accumulated Other Comprehensive Income (Loss)	Retained Earnings (Deficit)	Notes Receivable From Stockholders	Total Stockholders' Equity
Balance, March 31, 1997	1,223	$12	20,100	$ 201	$ 36,823	$ —	$ —	$(9,235)	$ (58)	$ 27,743
Issuance of common stock, net of issuance costs	—	—	20,156	202	51,791	—	—	—	—	51,993
Conversion of convertible preferred stock to common stock	(1,051)	(11)	42,868	429	(418)	—	—	—	—	—
Issuance of stock pursuant to exercise of stock options	—	—	6,808	69	806	—	—	—	(455)	420
Net exercise of warrants	—	—	212	—	—	—	—	—	—	—
Payments on notes	—	—	—	—	—	—	—	—	12	12
Repurchase of convertible preferred stock	(172)	(1)	—	—	(3,617)	—	—	(259)	—	(3,877)
Deferred compensation related to stock options	—	—	—	—	599	(599)	—	—	—	—
Amortization of deferred compensation	—	—	—	—	—	127	—	—	—	127
Net income	—	—	—	—	—	—	—	15,216	—	15,216
Balance, March 31, 1998	—	—	90,144	901	85,984	(472)	—	5,722	(501)	91,634
Issuance of stock upon formation of Cimaron	—	—	9,376	93	4,571	(230)	—	—	—	4,434
Issuance of common stock under employee stock purchase plans	—	—	1,668	17	3,162	—	—	—	—	3,179
Issuance of stock pursuant to exercise of stock options	—	—	5,260	53	2,484	(964)	—	—	—	1,573
Tax benefit of disqualifying dispositions	—	—	—	—	4,209	—	—	—	—	4,209
Payment on notes	—	—	—	—	—	—	—	—	46	46
Deferred compensation related to stock options and restricted stock	—	—	—	—	1,317	(1,317)	—	—	—	—
Amortization of deferred compensation	—	—	—	—	—	860	—	—	—	860
Adjustment for change in Cimaron's year end	—	—	—	—	—	—	—	(1,341)	—	(1,341)
Comprehensive Income:										
Net income	—	—	—	—	—	—	—	17,133	—	17,133
Unrealized loss on short-term investments, net of tax benefit	—	—	—	—	—	—	(33)	—	—	(33)
Total comprehensive income	—	—	—	—	—	—	—	—	—	17,100
Balance, March 31, 1999	—	—	106,448	1,064	101,727	(2,123)	(33)	21,514	(455)	121,694
Issuance of stock, net of issuance costs	—	—	12,005	120	814,860	—	—	—	—	814,980
Issuance of common stock under employee stock purchase plans	—	—	262	3	2,501	—	—	—	—	2,504
Issuance of stock pursuant to exercise of stock options	—	—	3,183	31	10,345	—	—	—	—	10,376
Repurchase of restricted stock	—	—	(56)	—	(11)	—	—	—	—	(11)
Amortization of deferred compensation	—	—	—	—	—	611	—	—	—	611
Elimination of deferred compensation related to stock options forfeited	—	—	—	—	(69)	69	—	—	—	—
Tax benefit of disqualifying dispositions	—	—	—	—	15,159	—	—	—	—	15,159
Comprehensive Income:	—	—	—	—	—	—	—	—	—	
Net income	—	—	—	—	—	—	—	48,625	—	48,625
Unrealized loss on short-term investments, net of tax benefit	—	—	—	—	—	—	(133)	—	—	(133)
Total comprehensive income	—	—	—	—	—	—	—	—	—	48,492
Balance, March 31, 2000	—	$—	121,842	$1,218	$944,512	$(1,443)	$(166)	$70,139	$(455)	$1,013,805

See accompanying notes.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)	Fiscal Year Ended March 31, 1998	1999	2000
Operating Activities			
Net income	$ 15,216	$ 17,133	$ 48,625
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	5,174	7,045	8,039
Write-offs of inventories	600	180	701
Amortization of deferred compensation	127	860	611
Tax benefit of disqualifying dispositions	—	4,209	15,159
Loss on disposals of property	—	221	—
Adjustment for change in Cimaron year end	—	(1,341)	—
Changes in operating assets and liabilities:			
Accounts receivables	(3,761)	(7,096)	(6,184)
Inventories	(1,255)	(1,808)	(1,813)
Other assets	(1,607)	(678)	(7,417)
Accounts payable	2,787	(84)	3,687
Accrued payroll and other accrued liabilities	2,418	4,495	2,170
Deferred income taxes	(3,882)	(691)	425
Deferred revenue	1,067	(434)	1,337
Net cash provided by operating activities	16,884	22,011	65,340
Investing Activities			
Proceeds from sales and maturities of short-term investments	66,547	187,787	1,847,446
Purchase of short-term investments	(119,874)	(199,394)	(2,559,018)
Repayments and (advances) on notes receivable from officers and employees	(366)	262	786
Purchase of property, equipment and other assets	(11,342)	(16,490)	(22,753)
Net cash used for investing activities	(65,035)	(27,835)	(733,539)
Financing Activities			
Proceeds from issuance of common stock, net	52,413	9,062	827,860
Repurchase of common stock	—	—	(11)
Repurchase of convertible preferred stock	(3,877)	—	—
Payments on notes receivable from stockholders	12	46	—
Payments on capital lease obligations	(2,691)	(2,110)	(1,214)
Payments on long-term debt	(37)	(792)	(1,864)
Proceeds from equipment financed under capital leases	—	2,342	—
Issuance of long-term debt	3,303	4,346	—
Net cash provided by financing activities	49,123	12,894	824,771
Net increase in cash and cash equivalents	972	7,070	156,572
Cash and cash equivalents at beginning of year	5,488	6,460	13,530
Cash and cash equivalents at end of year	$ 6,460	$ 13,530	$ 170,102
Supplemental disclosure of cash flow information:			
Cash paid for:			
Interest	$ 380	$ 542	$ 634
Income taxes	$ 3,251	$ 4,274	$ 12,273

Supplemental schedule of non-cash investing and financing activities: Capital lease obligations of approximately $282,000 were incurred and notes were received for the exercise of stock options totaling $455,000 during fiscal year 1998.

See accompanying notes.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BUSINESS

The Company designs, develops, manufactures and markets high-performance, high-bandwidth silicon solutions for the world's optical networks.

BASIS OF PRESENTATION

On September 9, 1999 and again on March 23, 2000, the Company effected a two-for-one stock split (in the form of a 100% stock dividend); accordingly, all prior share, per share, common stock, and stock option amounts in these financial statements have been restated to reflect the stock splits.

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

CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS

Cash and cash equivalents consist of money market type funds and highly liquid debt instruments with original maturities of three months or less at the date of acquisition. Short-term investments consist of United States Treasury notes, obligations of U.S. government agencies, State, Municipal and County government notes and bonds and corporate bonds. The Company maintains its excess cash in financial institutions with strong credit ratings and has not experienced any significant losses on its investments.

The Company classifies its short-term investments as "Available-for-Sale" and records such assets at the estimated fair value with unrealized gains and losses excluded from earnings and reported, net of tax, in comprehensive income (loss). The basis for computing realized gains or losses is by specific identification.

The following is a summary of available-for-sale securities (in thousands):

	Amortized	Gross Unrealized		Estimated
	Cost	Gains	Losses	Fair Value
At March 31, 2000:				
U.S. treasury securities and obligations of U.S. government agencies	$ 25,942	$—	$118	$ 25,824
State, Municipal and County government notes and bonds	397,645	30	14	397,661
U.S. corporate debt securities	361,132	26	194	360,964
	$784,719	$56	$326	$784,449
At March 31, 1999:				
U.S. treasury securities and obligations of U.S. government agencies	$ 21,740	$22	$ 72	$ 21,690
U.S. corporate debt securities	51,321	16	17	51,320
	$ 73,061	$38	$ 89	$ 73,010

Available-for-sale securities by contractual maturity are as follows (in thousands):	March 31, 2000
Due in one year or less	$700,939
Due after one year through two years	35,582
Greater than two years	47,928
	$784,449

FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying value of cash equivalents, short-term investments, accounts receivable, accounts payable, accrued liabilities and long-term debt approximates fair value.

CONCENTRATION OF CREDIT RISK

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist principally of available-for-sale securities and trade receivables. The Company believes that the credit risk in its trade receivables is mitigated by the Company's credit evaluation process, relatively short collection terms and dispersion of its customer base. The Company generally does not require collateral and has not experienced significant losses on trade receivables from any particular customer or geographic region for any period presented.

The Company invests its excess cash in debt instruments of the U.S. Treasury, governmental agencies and corporations with strong credit ratings. The Company has established guidelines relative to diversification and maturities that attempt to maintain safety and liquidity. These guidelines are periodically reviewed and modified to take advantage of trends in yields and interest rates. The Company has not experienced any significant losses on its cash equivalents or short-term investments.

USE OF ESTIMATES

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and disclosures made in the accompanying notes to the financial statements. These estimates include assessing the collectability of accounts receivable, the use and recoverability of inventory, estimates to complete engineering contracts, costs of future product returns under warranty and provisions for contingencies expected to be incurred. Actual results could differ from those estimates.

INVENTORIES

Inventories are stated at the lower of cost (determined on a first-in, first-out basis) or market. The Company's inventory valuation process is done on a part-by-part basis. Lower of cost or market adjustments, specifically identified on a part-by-part basis, reduce the carrying value of the related inventory and take into consideration reductions in sales prices, excess inventory levels and obsolete inventory. Once established, these adjustments are considered permanent and are not reversed until the related inventory is sold or disposed.

PROPERTY AND EQUIPMENT

Property and equipment are stated at cost and depreciated over the estimated useful lives of the assets (3 to 7 years) using the straight line method. Leasehold improvements are stated at cost and amortized over the useful life of the asset. Property and equipment under capital leases are recorded at the net present value of the minimum lease payments and are amortized over the useful life of the assets.

IMPAIRMENT OF LONG-LIVED ASSETS

In accordance with Statement of Financial Accounting Standards ("SFAS") No. 121, "Accounting for the Impairment of Long-Lived Assets and Long-Lived Assets to Be Disposed Of," the Company records impairment losses on long-lived assets used in operations when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amounts. SFAS No. 121 also addresses the accounting for long-lived assets that are expected to be disposed of. Through March 31, 2000, the Company has not experienced any such impairments.

ADVERTISING COST

Advertising costs are expensed as incurred.

REVENUES

Revenues related to product sales are generally recognized when the products are shipped to the customer. Recognition of revenues and the related cost of revenues on shipments to distributors that are subject to terms of sale allowing for price protection and right of return on products unsold by the distributor are deferred until the distributor's ability to return the products or its rights to price protection lapse or have been limited. Revenues on engineering design contracts are recognized using the percentage-of-completion method based on actual cost incurred to date compared to total estimated costs of the project. Deferred revenue represents both the margin on shipments of products to distributors that will be recognized when the distributors ship the products to their customers or the right of return has lapsed and billings in excess and estimated earnings on uncompleted engineering design contracts.

WARRANTY RESERVES

Estimated expenses for warranty obligations are accrued as revenue is recognized. Reserve estimates are adjusted periodically to reflect actual experience.

RESEARCH AND DEVELOPMENT

Research and development costs are expensed as incurred. Substantially all research and development expenses are related to new product development, designing significant improvements to existing products and new process development.

STOCK-BASED COMPENSATION

The Company has elected to follow Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25") and related interpretations in accounting for its employee and director stock options because the alternative fair value accounting provided for under SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"), requires the use of option valuation models that were not developed for use in valuing employee and director stock options. Under SFAS 123, compensation cost is determined using the fair value of stock-based compensation determined as of the grant date and is recognized over the periods in which the related services are rendered. The statement also permits companies to elect to continue using the current implicit value accounting method specified in APB 25 to account for stock-based compensation and disclose in the footnotes to the financial statements the pro forma effect of using the fair value method for its stock-based compensation.

RECENT ACCOUNTING PRONOUNCEMENT

In June 1998, the Financial Accounting Standards Board (FASB) issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," which establishes accounting and reporting standards for derivative instruments and hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the balance sheet and measure those instruments at fair value. Management does not believe this will have a material effect on the Company's operations. Implementation of this standard has recently been delayed by the FASB for a 12-month period. The Company will now adopt SFAS 133 as required for its first quarterly filing of fiscal year 2002.

RECLASSIFICATION

Certain prior period amounts have been reclassified to conform to the current period presentation.

EARNINGS PER SHARE

Shares used in basic earnings per share are computed using the weighted-average number of common shares outstanding during each period. Shares used in diluted earnings per share include the dilutive effect of common shares potentially issuable upon the exercise of stock options. The reconciliation of shares used to calculate basic and diluted earnings per share consists of the following (in thousands):

	Fiscal Year Ended March 31,		
	1998	1999	2000
Shares used in basic earnings per share computations–weighted-average common shares outstanding	42,376	98,056	107,820
Effect of assumed conversion of preferred stock from date of issuance	29,736	—	—
Net effect of dilutive common share equivalents based on treasury stock method	9,064	11,664	11,332
Shares used in diluted earnings per share computations	81,176	109,720	119,152

2. ACQUISITIONS

In March 1999, the Company acquired all of the outstanding common stock and common stock equivalents of Cimaron Communications Corporation ("Cimaron") in exchange for approximately 12 million shares of the Company's common stock. Cimaron also designs and develops high-bandwidth silicon solutions for the world's communications equipment manufacturers. The acquisition has been accounted for using the pooling-of-interests method of accounting. Prior to the combination, Cimaron had a fiscal year end of December 31. In recording the business combination, Cimaron's results of operations for the fiscal year ended December 31, 1998 were combined with AMCC's for the fiscal year ended March 31, 1999. Cimaron's net sales and net loss for the three-month period ended March 31, 1999 were $110,000 and $(1,341,000), respectively. Cimaron's results of operations and cash flows for the three-month period ended March 31, 1999 have been added directly to the retained earnings and cash flows of AMCC and excluded from reported fiscal 1999 results of operations.

In April 1998, the Company acquired Ten Mountains Design, which designs and develops high-bandwidth analog devices for communications equipment suppliers and optical module manufacturers. The purchase price was approximately $330,000 and resulted in recording intangible assets of approximately $280,000, which will be amortized over three years. The financial statements include the results of operation for Ten Mountains Design from the date of acquisition.

3. CERTAIN FINANCIAL STATEMENT INFORMATION

	March 31,	
	1999	2000
Inventories (in thousands):		
Finished goods	$ 975	$ 2,666
Work in process	7,688	6,966
Raw materials	1,150	1,293
	$ 9,813	$10,925

	March 31,	
	1999	2000
Property and equipment (in thousands):		
Machinery and equipment	$33,280	$46,375
Leasehold improvements	7,641	8,352
Computers, office furniture and equipment	16,654	20,743
Land	1,133	4,808
	58,708	80,278
Less accumulated depreciation and amortization	(35,580)	(42,436)
	$23,128	$37,842

	March 31, 1999	March 31, 2000
Other accrued liabilities (in thousands):		
Income taxes payable	$ 3,329	$ 839
Accrued merger-related costs	1,893	—
Other	1,985	5,609
	$ 7,207	$ 6,448

The cost and accumulated amortization of machinery and equipment under capital leases at March 31, 2000 were approximately $10.5 million and $8.7 million, respectively ($10.5 million and $8.5 million, respectively, at March 31, 1999). Amortization of assets held under capital leases is included with depreciation expense.

During the years ended March 31, 1998, 1999 and 2000, the Company earned interest income of $1,252,000, $3,992,000 and $13,506,000, respectively, and incurred interest expense of $381,000, $542,000 and $634,000, respectively.

4. LONG-TERM DEBT

During Fiscal 1999, the Company had an equipment line of credit with a bank, which expired on March 31, 1999. Borrowings of $7.1 million under the line of credit were converted into term notes, with monthly payments totaling $141,000 including interest, payable over 53 to 60 months, at interest rates between 6.44% and 7.42%. At March 31, 2000, approximately $5.0 million was outstanding on the notes.

Principal maturities of the notes payable at March 31, 2000 are as follows:

Year Ending March 31,	(in thousands)
2001	$1,394
2002	1,495
2003	1,603
2004	501
	$4,993

5. STOCKHOLDERS' EQUITY

AUTHORIZED SHARES

On September 1, 1999, the Company's stockholders approved an increase in the number of authorized shares of common stock to 180 million.

STOCK OFFERINGS

In December 1997, the Company completed its initial public offering of its common stock. The offering raised net proceeds to the Company of approximately $25.1 million. In March 1998, the Company completed a secondary public offering of common stock in which the Company raised net proceeds of approximately $26.9 million. In January 2000, the Company raised an additional $815 million of net proceeds from the issuance of approximately 12 million shares of its common stock.

CONVERTIBLE PREFERRED STOCK

On April 24, 1997, the Board authorized the Company to repurchase up to $4.0 million of convertible preferred stock, with priority given to the holders of convertible preferred stock that submitted bids for the sale of their shares of convertible preferred stock at the lowest price per share. On June 20, 1997, the Company repurchased an aggregate of

172,300 shares of convertible preferred stock for approximately $3.9 million at prices between $1.20 and $2.61 per share on an as converted to common stock basis. In connection with the initial public offering, all then-outstanding shares of convertible preferred stock immediately converted into 42.9 million shares of common stock.

PREFERRED STOCK

In November 1997, the Certificate of Incorporation was amended to allow the issuance of up to 2.0 million shares of preferred stock in one or more series and to fix the rights, preferences, privileges and restriction thereof, including dividend rights, dividend rates, conversion rights, voting rights, terms of redemption, redemption prices, liquidation preferences and the number of shares constituting any series of the designation of such series, without further vote or action by the stockholders.

STOCK OPTIONS AND OTHER STOCK AWARDS

In March 2000, the Company adopted the 2000 Equity Incentive Plan (the "2000 Plan"), under which 4.0 million shares were reserved for future granting of nonqualified stock options to employees, directors and consultants of the Company and its affiliates. At March 31, 2000, 2.6 million nonqualified stock options were outstanding and 1.4 million shares were available for future grant under the 2000 Plan.

The Company's 1992 Stock Option Plan (the "1992 Plan") provides for the granting of incentive and nonqualified stock options to employees. During fiscal 2000, the Board of Directors adopted, and the stockholders subsequently approved, an amendment to the 1992 Plan to increase the number of shares available for future grant by 15.2 million. At March 31, 2000, 17.3 million stock options were outstanding and 9.8 million shares were available for future grant under the 1992 Plan. The Company's 1982 Employee Incentive Stock Option Plan expired in 1992.

In connection with the Company's acquisition of Cimaron, the Company assumed options and other stock awards granted under Cimaron's 1998 Stock Incentive Plan (the "Incentive Plan") covering approximately 2.6 million shares of common stock at a weighted-average exercise price of $.06 per share. The terms of the plan provides for the granting of options, restricted stock, or other stock-based awards ("stock awards") to employees, officers, directors, consultants and advisors. At March 31, 2000, approximately 250,000 stock options were outstanding and 1.6 million shares were available for future grant under the Incentive Plan.

The Company's 1997 Directors' Stock Option Plan (the "Directors' Plan") was adopted by the Board of Directors on October 6, 1997 and was subsequently approved by the stockholders. A total of 800,000 shares of common stock are reserved for issuance under the Directors' Plan. The Directors' Plan provides for the grant of nonstatutory options to non-employee directors of the Company. At March 31, 2000, 100,000 stock options had been issued under the Directors' Plan and 700,000 shares were available for future grant.

Options and other stock awards under the plans expire not more than ten years from the date of grant and are either exercisable immediately after the date of grant and subject to certain repurchase rights by the Company until such ownership rights have vested, or exercisable upon vesting. Vesting generally occurs over four to five years. At March 31, 1999 and 2000, 3.5 million and 1.1 million shares of common stock were subject to repurchase, respectively. Options are granted at prices at least equal to fair value of the Company's common stock on the date of grant.

Pursuant to an employment agreement entered into during January 1996 between the Company and an executive, the Company granted an option to purchase 3.2 million shares of the Company's common stock at $0.13 per share under the 1992 Stock Option Plan. The option vests ratably over four years. In the event the Company is acquired, the agreement stipulates that under certain circumstances the executive is eligible for certain additional compensation. These options as well as 266,668 additional options issued in April 1997 were exercised in July 1997. The exercise was paid for with various full-recourse notes, which aggregated $455,000 and bear interest at rates between 5.98% and 6.54%, and were due at the earlier of February 12, 2000 ($420,000) and April 9, 2001 ($35,000) or the termination of employment. In January 2000, the notes due in February 2000 were extended by the Board of Directors to become due in February 2002.

Pro forma information regarding net income and net income per share is required by SFAS No. 123, and has been determined as if the Company had accounted for its employee stock options under the fair value method of that statement. The fair value of the options was estimated at the date of grant using the minimum value method for grants prior to the initial public offering and the Black Scholes method for grants after the initial public offering.

The fair value of options granted in 1998, 1999 and 2000 reported below has been estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions.

	Fiscal Year Ending March 31,		
	1998	1999	2000
Expected life (in years)	4.0	4.5	4.0
Risk-free interest rate	6.0%	6.0%	6.0%
Volatility	.92	.89	.82
Dividend yield	0%	0%	0%

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 options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in the opinion of management, the existing models do not necessarily provide a reliable single measure of the fair value of its options. The weighted-average estimated fair value of employee stock options granted during 1998, 1999 and 2000, including options assumed through acquired companies, was $1.71, $5.27 and $40.28 per share, respectively. For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting periods. The Company's pro forma information is as follows:

	Year Ending March 31,		
(in thousands, except per share amounts)	1998	1999	2000
Pro forma net income	$14,856	$13,202	$19,385
Pro forma basic earnings per share	$ 0.35	$ 0.13	$ 0.18
Pro forma diluted earnings per share	$ 0.18	$ 0.12	$ 0.16

A summary of the Company's stock option activity, including those issued outside of the plans, and related information are as follows (shares in thousands):

	Year Ending March 31,					
	1998		1999		2000	
	Options	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price
Outstanding at beginning of year	11,369	$0.13	10,730	$ 1.72	10,694	$ 4.03
Granted	7,196	2.50	6,081	4.62	13,798	63.51
Exercised	(6,806)	0.13	(5,258)	0.30	(3,183)	3.26
Forfeited	(1,029)	0.16	(859)	2.08	(1,026)	9.65
Outstanding at end of year	10,730	$1.72	10,694	$ 4.03	20,283	$ 44.31
Vested at end of year	2,540	$0.15	2,714	$ 1.81	3,899	$ 8.39

The following is a further breakdown of the options outstanding at March 31, 2000 (shares in thousands):

Range of Exercise Prices	Number Outstanding	Weighted-Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price
$ 0.09–$ 2.00	2,304	6.86	$ 0.38	1,288	$ 0.24
$ 2.00–$ 6.75	3,024	8.02	$ 5.64	1,125	$ 5.60
$ 6.75–$ 23.00	7,014	9.05	$ 12.96	1,329	$ 12.05
$ 23.00–$ 42.25	1,451	9.55	$ 35.07	31	$ 27.93
$ 42.25–$ 71.97	2,086	9.80	$ 71.00	126	$ 71.83
$ 71.97–$140.53	691	9.87	$ 97.62	—	$ —
$140.53–$154.81	3,713	9.94	$140.95	—	$ —
$ 0.09–$154.81	20,283	8.95	$ 44.31	3,899	$ 8.39

From April 1, 1997 through September 30, 1997, the Company recorded deferred compensation expense for the difference between the exercise price and the fair value for financial statement presentation purposes of the Company's common stock, as determined by the Board of Directors, for all options granted in the period. This deferred compensation aggregates to $599,000, which is being amortized ratably over the four-year vesting period of the related options. Additionally, during the year ended March 31, 1999, the Company recorded deferred compensation related to restricted stock and stock options granted to founders and employees of Cimaron of $2.5 million. Such amount is being amortized over the related vesting period, generally five years. Amortization of deferred compensation during fiscal years 1998, 1999 and 2000 was $127,000, $860,000 and $611,000, respectively.

EMPLOYEE STOCK PURCHASE PLANS

The Company's 1997 Employee Stock Purchase Plan (the "1997 Purchase Plan") was adopted by the Board of Directors on October 6, 1997 and was subsequently approved by the stockholders. A total of 1.6 million shares of common stock are reserved for issuance under the 1997 Purchase Plan. At March 31, 2000, approximately 1.58 million shares had been issued under the 1997 Purchase Plan and approximately 20,000 shares were available for future issuance.

The Company's 1998 Employee Stock Purchase Plan (the "1998 Purchase Plan") was approved by the stockholders on August 4, 1998. A total of 1.6 million shares are authorized for issuance under the 1998 Purchase Plan. At March 31, 2000, 355,144 shares had been issued under the 1998 Purchase Plan and approximately 1.2 million shares were available for future issuance.

Under the terms of the plans, purchases are made semiannually on January 31 and July 31 and the purchase price of the common stock is equal to 85% of the fair market value of the common stock on the first or last day of the offering period, whichever is lower.

COMMON SHARES RESERVED FOR FUTURE ISSUANCE

At March 31, 2000, the Company has the following shares of common stock reserved for issuance upon the exercise of equity instruments (in thousands):

Stock Options:	
Issued and outstanding	20,283
Authorized for future grants	13,500
Stock purchase plans	1,269
	35,052

6. INCOME TAXES

The provision for income taxes consists of the following:

(in thousands)	Fiscal Year Ended March 31, 1998	1999	2000
Current:			
Federal	$3,606	$ 9,860	$21,966
State	682	1,064	2,976
Total current	4,288	10,924	24,942
Deferred:			
Federal	(3,558)	(362)	65
State	(324)	(329)	360
Total deferred	(3,882)	(691)	425
	$ 406	$10,233	$25,367

The provision for income taxes reconciles to the amount computed by applying the federal statutory rate (35%) to income before income taxes as follows:

(in thousands)	Fiscal Year Ended March 31, 1998		1999		2000	
	$	%	$	%	$	%
Tax at federal statutory rate	$5,468	35%	$ 9,578	35%	$25,897	35%
Increase (decrease) in valuation allowance of deferred tax assets	(5,094)	(32)	—	—	—	—
Foreign sales corporation	(309)	(2)	(387)	(1)	(873)	(1)
Tax exempt interest	—	—	—	—	(312)	—
State taxes, net of federal benefit	233	1	478	1	2,294	3
Federal tax credits	(281)	(2)	(1,216)	(5)	(2,122)	(3)
State tax credits	—	—	—	—	(1,097)	(2)
Merger costs and deferred compensation	—	—	763	3	213	—
Other	389	3	1,017	4	1,367	2
	$ 406	3%	$10,233	37%	$25,367	34%

Significant components of the Company's deferred tax assets and liabilities for federal and state income taxes as of March 31, 1999 and 2000 are as shown below. At March 31, 1998, the effective tax rate is computed based on a full reduction of the valuation allowance and realization of the deferred tax asset.

	March 31,	
(in thousands)	1999	2000
Deferred tax assets:		
Inventory write-downs and other reserves	$1,850	$2,433
Net operating loss carryforwards	1,719	—
Capitalization of inventory and research and development costs	313	405
Research and development credit carryforwards	298	1,364
State income taxes	47	140
Other credit carryforwards	447	—
Total deferred tax assets	4,674	4,342
Deferred tax liabilities:		
Depreciation and amortization	101	194
Net deferred tax assets	$4,573	$4,148

At March 31, 2000, the Company has federal research and development tax credit carryforwards of approximately $1.4 million, which will begin to expire in 2020 unless previously utilized.

7. COMMITMENTS

The Company leases certain of its facilities under long-term operating leases, which expire at various dates through 2011. In addition, the Company has committed to a long-term lease for a building beginning in October 2000, which also expires in 2011. The lease agreements frequently include renewal provisions, which require the Company to pay taxes, insurance and maintenance costs, and contain escalation clauses based upon increases in the Consumer Price Index or defined rent increases. The Company also leases certain software under noncancellable operating leases expiring through 2002.

Annual future minimum lease payments, including machinery and equipment under capital leases as of March 31, 2000 are as follows:

Fiscal Year Ending March 31,	Operating Leases	Capital Leases
2001	$ 4,591	$ 879
2002	5,076	736
2003	4,485	449
2004	2,379	678
2005	2,261	—
Thereafter	8,292	—
Total minimum lease payments	$27,084	2,742
Less amount representing interest		318
Present value of remaining minimum capital lease payments (including current portion of $729)		$2,424

Rent expense (including short-term leases and net of sublease income) for the years ended March 31, 1998, 1999 and 2000 was $1.2 million, $1.4 million and $1.6 million, respectively.

8. EMPLOYEE RETIREMENT PLAN

Effective January 1, 1986, the Company established a 401(k) defined contribution retirement plan (the "Retirement Plan") covering all full-time employees with greater than three months of service. The Retirement Plan provides for voluntary employee contributions from 1% to 20% of annual compensation, subject to a maximum limit allowed by Internal Revenue Service guidelines. The Company may contribute such amounts as determined by the Board of Directors. Employer contributions vest to participants at a rate of 20% per year of service, provided that after five years of service all past and subsequent employer contributions are 100% vested. The contributions charged to operations totaled $412,000, $573,000 and $677,000 for the years ended March 31, 1998, 1999 and 2000, respectively.

9. SIGNIFICANT CUSTOMER AND GEOGRAPHIC INFORMATION

During the years ended March 31, 1998, 1999 and 2000, 21%, 20% and 38%, respectively, of net revenues were from Nortel and their subcontract manufacturers. In 1998, 1999 and 2000, Insight Electronics, the Company's domestic distributor, accounted for 11%, 13% and 17% of net revenues, respectively. Additionally, in 1999, Raytheon Systems Co. accounted for 16% of net revenues. No other customer accounted for more than 10% of revenues in any period.

Net revenues by geographic region were as follows:

	Fiscal Year Ended March 31,		
(in thousands)	1998	1999	2000
Net revenues:			
United States	$44,448	$ 61,760	$ 88,349
Canada	14,204	18,011	43,770
Europe and Israel	13,773	18,136	28,980
Asia	4,193	7,093	11,253
	$76,618	$105,000	$172,352

10. CONTINGENCIES

The Company is party to various claims and legal actions arising in the normal course of business, including notification of possible infringement on the intellectual property rights of third parties. In addition, since 1993 the Company has been named as a potentially responsible party ("PRP") along with a large number of other companies that used Omega Chemical Corporation ("Omega") in Whittier, California to handle and dispose of certain hazardous waste material. The Company is a member of a large group of PRPs that has agreed to fund certain remediation efforts at the Omega site for which the Company has accrued approximately $50,000. Although the ultimate outcome of these matters is not presently determinable, management believes that the resolution of all such pending matters, net of amounts accrued, will not have a material adverse affect on the Company's financial position or liquidity; however, there can be no assurance that the ultimate resolution of these matters will not have a material impact on the Company's results of operations in any period.

11. SUBSEQUENT EVENT

On April 19, 2000, the Company signed a definitive agreement to acquire YuniNetworks, Inc., a developer of scalable switch fabric silicon solutions for communication equipment. Under the terms of the agreement, AMCC will issue up to 2,250,000 shares of its common stock and options in exchange for all outstanding shares of YuniNetworks' preferred and common stock, including shares issuable upon exercise of employee stock options and other rights. The transaction will be accounted for as a purchase and is expected to close in June 2000.

REPORT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

THE BOARD OF DIRECTORS

APPLIED MICRO CIRCUITS CORPORATION

We have audited the accompanying consolidated balance sheets of Applied Micro Circuits Corporation as of March 31, 1999 and 2000, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended March 31, 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 Applied Micro Circuits Corporation at March 31, 1999 and 2000, and the consolidated results of its operations and its cash flows for each of the three years in the period ended March 31, 2000, in conformity with accounting principles generally accepted in the United States.

Ernst + Young LLP

San Diego, California
April 19, 2000

CORPORATE HEADQUARTERS

APPLIED MICRO CIRCUITS CORPORATION (AMCC)
6290 Sequence Drive
San Diego, CA 92121-4358
Phone: (858) 450-9333
Fax: (858) 450-9885

INVESTOR INFORMATION

Exchange: Nasdaq Stock Market
Symbol: AMCC

INQUIRIES CONCERNING THE COMPANY

Applied Micro Circuits Corporation welcomes inquiries from its stockholders and other interested investors. For additional copies of this report, the Form 10-K or other information, please contact:

AMCC
Debra K. Hart
Investor Relations Manager
6290 Sequence Drive
San Diego, CA 92121-4358
Phone: (858) 535-4217
Fax: (858) 597-7326

You are invited to visit our home page on the World Wide Web at www.amcc.com for more information. You'll find background on the Company and its products, financial data and other information that may be of interest to investors.

TRANSFER AGENT AND REGISTRAR

Questions regarding misplaced stock certificates, change of address or the consolidation of accounts should be addressed to the Company's transfer agent:

Computershare Investor Services, LLC
Shareholder Communications Team
P.O. Box A3504
Chicago, IL 60690-3504
Phone: (312) 588-4143
www.computershare.com

ANNUAL MEETING

The AMCC annual meeting of stockholders will be held at 10:00 a.m. on Tuesday, August 29, 2000, at AMCC's facility located at 6290 Sequence Drive, San Diego, CA.

INDEPENDENT AUDITORS

Ernst & Young LLP
501 W. Broadway, Suite 1100
San Diego, CA 92101

GENERAL COUNSEL

Cooley Godward LLP
4365 Executive Drive, Suite 1100
San Diego, CA 92121

BOARD OF DIRECTORS

David M. Rickey
President and Chief Executive Officer
Applied Micro Circuits Corporation

Roger A. Smullen, Sr.[2]
Chairman of the Board

William K. Bowes, Jr.[2]
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Principal
Ghest Associates Consulting

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General Partner
Asset Management Company

S. Atiq Raza
President and CEO
Raza Foundries, Inc.

Arthur B. Stabenow[1]
Former Chairman, President and Chief Executive Officer
Micro Linear Corporation

Harvey P. White[1]
Chairman, President and Chief Executive Officer
Leap Wireless International

(1) Member of the Compensation Committee
(2) Member of the Audit Committee

OFFICERS

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Roger A. Smullen, Sr.
Chairman of the Board

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Vice President, Chief Financial Officer
Secretary

Kenneth L. Clark
Vice President, Operations

Candace H. Kilburn
Vice President, Human Resources

Brent E. Little
Vice President, Marketing

Gary D. Martin
Chief Technical Officer, Digital Products

Stephen M. Smith
Vice President, Business Development

Ramakrishna P. Sudireddy
Vice President, Digital Products

Thomas L. Tullie
Vice President, Sales

Gregory A. Winner
Vice President, Engineering

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