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CORPORATE PROFILE

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

As of the end of fiscal 1999, approximately 40% of Analog's revenues came from the communications market, making it the Company's largest and fastest-growing served market. Communications applications include wireless handsets and base stations, as well as products used for high-speed access to the Internet, including ICs used in ADSL and cable modems and central office networking equipment.

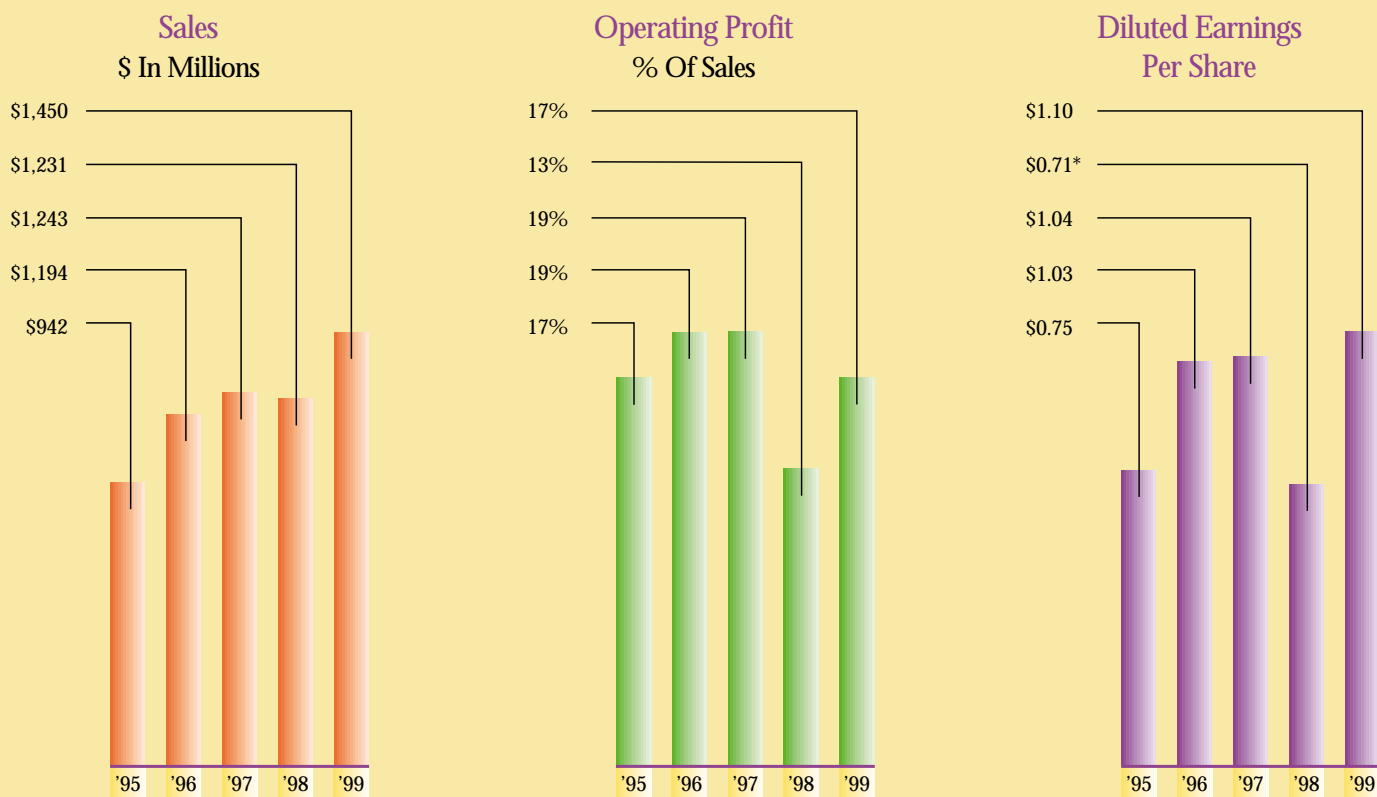
Analog serves the PC market with products that monitor and manage power usage, process signals used in flat panel displays and multimedia projectors and enable PCs to provide CD-quality audio. The Company also serves the high-end consumer market with products used in digital cameras and camcorders, DVD

players and surround sound audio systems. Analog provides a broad array of products to the industrial market, including products for automatic test equipment and for the digital speed control of AC motors.

Analog's products are sold worldwide through a direct sales force, third-party industrial distributors and independent sales representatives. The Company has direct sales offices in 18 countries, including the United States. Approximately 46% of Analog's fiscal 1999 revenues came from customers in North America, while most of the balance came from customers in Western Europe and the Far East.

The Company is headquartered near Boston, in Norwood, Massachusetts, and has manufacturing facilities in Massachusetts, California, North Carolina, Ireland, the Philippines and Taiwan. Founded in 1965, Analog Devices employs approximately 7,400 people worldwide. The Company's stock (NYSE: ADI) is included in the Standard & Poor's 500 Index.

RESULTS SINCE 1995



*Excludes cumulative effect of change in accounting principle.

DEAR SHAREHOLDERS:

Fiscal 1999 was one of the most exhilarating years in Analog Devices' history. Business accelerated dramatically throughout the year as the semiconductor cycle improved, and our newest analog and digital signal processing (DSP) technology proved critical in many mainstream, high-growth applications, particularly in the communications market. For the full year, revenues increased by 18% and earnings per share (EPS) grew by 55%. But most importantly, we ended the year with a strong finish, positioning ADI for even greater success in 2000. In the fourth quarter, our revenues grew by 45% over the same

period last year, gross margin reached 52% of sales, operating profit was 21% of sales and EPS was \$0.40, an increase of 150% over the same quarter in fiscal 1998. Our balance sheet also strengthened considerably throughout the year. Cash increased by over \$450 million, inventory declined by 39 days and accounts receivable decreased by 7 days.

More than ever before, 1999 set the stage for the dawn of the upcoming era of signal processing, as the convergence of computing and communications created important new opportunities for ADI. The remainder of this letter is devoted to describing the most promising of these opportunities.

ANALOG AND DIGITAL SIGNAL PROCESSING: GROWTH MARKETS FOR THE NEW DECADE

High-performance analog and DSP technology are ADI's core areas of expertise, and during 1999 we strengthened our competitive position in both product groups.



Within our analog products, converter market share increased to almost 40% during 1999, which we believe is three times that of our closest competitor. We believe we can continue widening this gap during 2000. By the fourth quarter, converter sales were at an annual running rate of \$450 million. Converters provide the critical bridge between the analog and digital worlds and are very often the differentiating element for overall system performance. Our continuing leadership in the converter market is especially important because high-performance convert-

ers most often interface with DSPs in real-time signal processing applications. As a result, our converters are used not only with our own DSPs, but with most of our competitors' DSPs as well.

ADI's amplifier sales grew by 15% to an annual running rate of more than \$400 million in the fourth quarter, and our overall amplifier market share increased to over 15%. More importantly, our market share in high-performance amplifiers increased to approximately 36%. In addition, revenues from power management and monitoring products increased by more than 75% to over \$100 million, as our products now monitor and control power in the most popular laptops and other portable products.

Our analog revenues grew faster than the market's

during 1999 and by the fourth quarter were running approximately 37% ahead of the same period last year. Also, the findings of an independent market study confirmed that engineers regard ADI as the clear leader among analog IC suppliers in technology, customer satisfaction and repurchase loyalty.



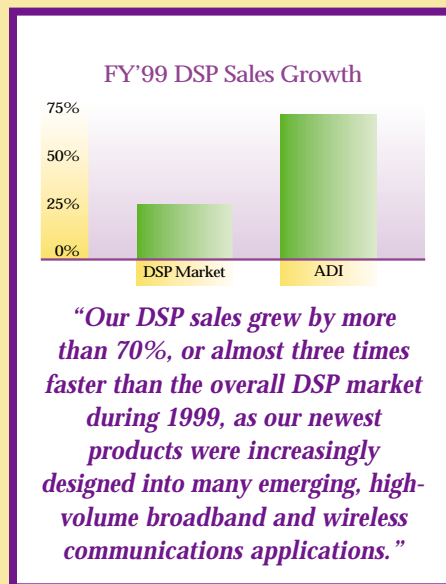
Interestingly, the digital revolution has spawned many new applications that require high-performance analog products and has thus greatly increased the secular growth opportunity available to Analog Devices. ADI remains the undisputed world leader in high-performance analog technology, and we are poised to continue capitalizing on the range of opportunities available to us.

Our ability to integrate analog and DSP functionality, thus reducing cost, power consumption and chip size, and our aggressive DSP core road map have differentiated ADI in the DSP market, accelerating our growth beyond that of our competitors'. Our DSP sales grew by more than 70%, or almost three times faster than the overall DSP market during 1999, as our newest products were increasingly designed into many emerging, high-volume broadband and wireless communications applications.

THE CHANGING MARKET MIX AT ADI: THE SHIFT TO COMMUNICATIONS

During the 1980s and much of the 1990s, personal computers (PCs) and data processing equipment consumed over 50% of all semiconductors produced. While growth opportunities for analog and DSP technology existed throughout this period, most system differentiation was related to the performance of the central processor.

But in the late 1990s, as Internet and cellular usage exploded, the



changing the landscape in the semiconductor industry.

As a result of these emerging opportunities, ADI's market mix has changed substantially over the past few years to become much more communications-centric. Fiscal 1999 sales into the communications market totaled approximately \$550 million, making this our fastest-growing served market. Fourth quarter communications sales increased more than 70% year over year and accounted for more than 40% of the quarter's total revenues. Our communications market revenues were running at a \$700 million annual rate as of the fourth quarter and we believe they could exceed \$900 million for fiscal 2000. This would be more than 60% above fiscal 1999's level, and would make

ADI one of the world's largest semiconductor suppliers to communications customers.

Sales to PC and high-end digital entertainment applications now account for 20% to 25% of total revenues. Sales to industrial, instrumentation and military customers represent the remaining 30% to 35% of sales.



HIGH-SPEED CONNECTIONS TO THE INTERNET

The explosion in Internet usage in the past few years has created requirements for ever-increasing bandwidth to accommodate voice, images and data. And, bandwidth is increasing at twice the rate of "Moore's Law," that is, bandwidth is doubling every nine months at the same cost. ADI is facilitating this growth at many levels:

HIGH-SPEED DSL AND CABLE MODEMS

As video images and voice applications have become more common, modem speed remains one of the largest impediments to Internet user-satisfaction. ADSL (Asymmetric Digital Subscriber Line) technology, using existing telephone lines, offers access speeds 50 to 100 times those of current-generation modems.

As ADSL deployment accelerated in 1999, ADI technology was included in a large percentage of ADSL modems produced worldwide. Our integrated chipsets, which include analog and DSP functions as well as the system software, are a top choice of the largest telecommunications infrastructure suppliers around the world, including Cisco, Lucent and Nortel. The largest carrier build-outs around the world also include ADI's ADSL products.

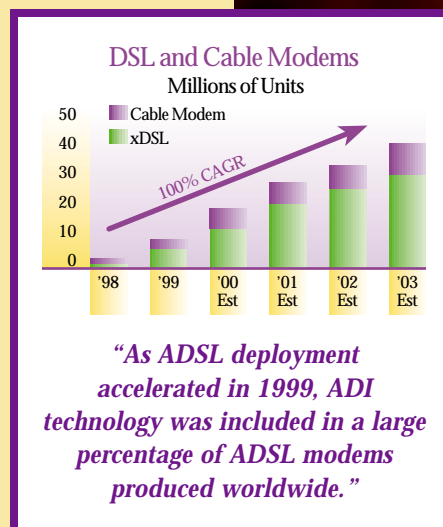
Line drivers currently consume as much as 40% of the power consumption of the entire system, and ADI line drivers provide the lowest power dissipation for any given drive current. As a result, we estimate that our line drivers have captured over 75% of the world market for ADSL and cable modems.

CENTRAL OFFICE NETWORKING INFRASTRUCTURE

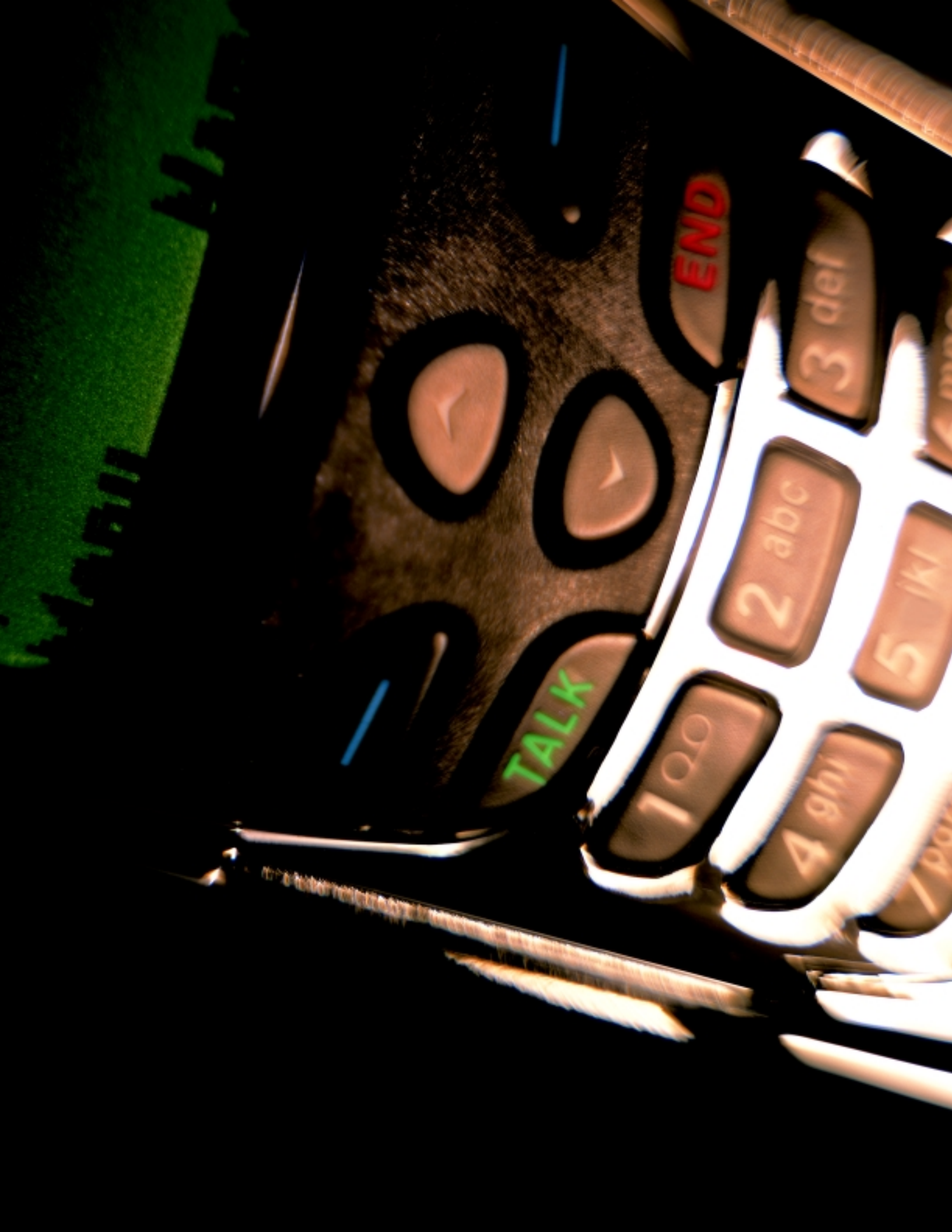
Demand for central office network access and concentrator products is growing rapidly as data traffic increases and Voice Over Internet Protocol (VOIP) becomes mainstream technology. Increasingly, ports that can be software configured in real time for either voice or data, depending on the type of traffic, are in high demand. At the heart of many high-density central office concentrators are ADI components and software, which together provide the highest port density and lowest power dissipation available. During 2000, we expect that our technology will evolve to provide 24 modem and 48 voice ports per package, a significant enhancement as concentrator density continues to double each year.

HIGH-SPEED SONET AND ATM SWITCHING

During 1999, we accelerated our investments in high-frequency/high-bandwidth physical layer products for Internet infrastructure applications. We are now introducing many new products for clock/data recovery, transceivers for wide area network (WAN) routers, laser diode drivers and optical monitoring that will cover both transmission and data communications infrastructure. These very complex mixed-signal products offer ADI the prospect of both high growth and high margins.









EXPLOSIVE WIRELESS COMMUNICATIONS GROWTH

Wireless communications has become an important growth engine for the semiconductor industry. In fact, during 1999, the number of cellular phone subscribers easily exceeded the entire installed base of personal computers. High-performance analog and DSP technology are at the heart of cellular handsets, base station and other wireless products, creating another important growth opportunity for ADI.

THE CELLULAR HANDSET OPPORTUNITY

Cellular handsets include radio frequency (RF) components, mixed-signal, DSP and advanced power management, all of which are provided by ADI. And for those customers requiring a complete system solution, we offer a complete hardware and software reference design, from the microphone to the antenna. Interestingly, analog and mixed-signal technology constitutes the major cost of the semiconductor products in digital handsets.

During 1999, we saw a significant increase in the use of ADI's DSP technology in digital cellular handsets. We believe we have even greater opportunities in 2000, as cell phone manufacturers strive to differentiate themselves from their competitors. ADI has a new DSP-based platform that allows manufacturers to add high-speed Internet access to their products, as well as the ability to interface with different frequency bands around the world and even with satellite communications systems.

Perhaps the greatest opportunity for ADI in wireless handsets is for "radio" technology, which is the greatest technological challenge remaining in digital handsets. During 1999, we introduced the Othello™ direct conversion radio chipset, recently named *Electronic Products* magazine's "Product of the Year" for 1999. This highly integrated chipset converts incoming RF signals directly to a baseband signal, which eliminates expensive intermediate-frequency mixer, amplifier and filter components. It provides a 30% to 50% saving in cost and size for next-generation dual-band and triple-band GSM cellular handsets.

The Othello chipset also significantly reduces power consumption, enabling up to 1,000 hours of standby time. In addition, it paves the way for next-generation cellular phones by enabling data rates 25 to 30 times greater than the 14.4 kbps rate achievable with current-generation GSM phones. This will make possible high-bandwidth applications, such as web browsing, email, games and real-time video.

We believe that the cost and size advantages of this chipset will provide ADI with the potential for very high volume, as well as the opportunity to leverage many other analog, mixed-signal and DSP components into new handset designs. We plan to extend our lead in "wireless radio products" during 2000 with the introduction of a highly integrated radio for CDMA applications.

THE BASE STATION OPPORTUNITY

The proliferation of cellular base stations continues to accelerate to accommodate a much larger installed base of cellular customers. ADI's components and systems technology are important elements in base stations being deployed around the world. While base station unit volumes are obviously much lower than those for handsets, the market is very fragmented and the profit opportunities are excellent.

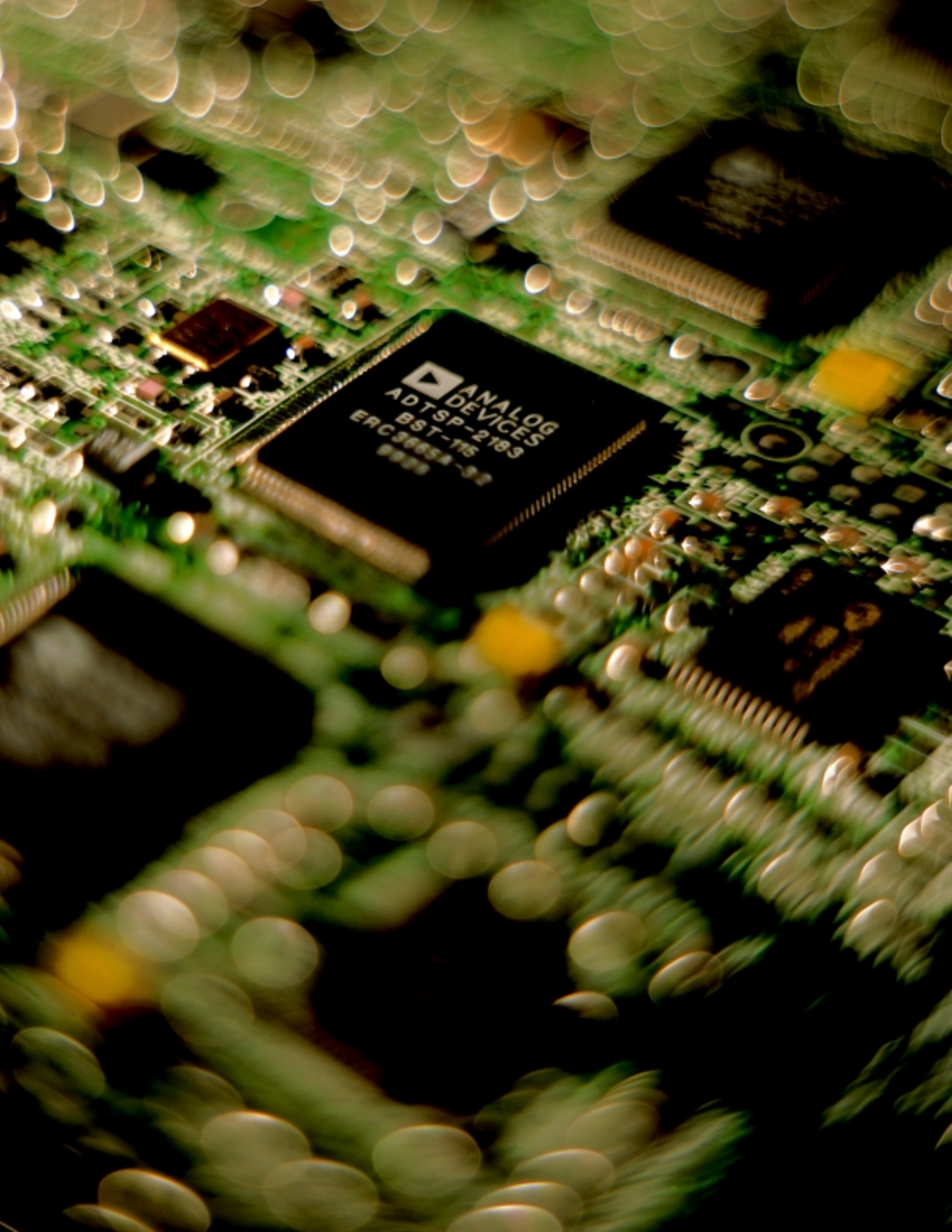
One example of the breakthrough products we supply to this market is the TruPwr™ power detector announced in late 1999. This radio frequency IC easily and accurately measures complex waveforms, such as those employed in CDMA and Wideband-CDMA applications. It achieves instrument-grade performance and accuracy at a fraction of the cost, size and power of previous solutions. In addition to being suitable for applications involving all cellular bands worldwide, we expect it to be designed into a broad range of other RF applications, including radio links, wireless terminals, fiber-optic links, instrumentation and test equipment.

Also in 1999, we introduced the SoftCell® multicarrier transceiver chipset, which allows equipment manufacturers to develop smaller, more powerful base stations that are optimized for cellular/PCS, wireless local loop (WLL), Micro/Pico cell and smart antenna system applications. Designs incorporating SoftCell will directly address a number of wireless operators' key issues, including cost of coverage, flexibility, size and quality of service. For example, the reduced size and cost of base stations using the SoftCell chipset will allow operators to deploy base stations in higher numbers and in tight locations. The result is better coverage, higher quality signals and fewer busy signals. It also allows operators to use and move between any air interface standard (e.g., GSM, PHS, D-AMPS), making it possible for a single base station to serve multiple standards.

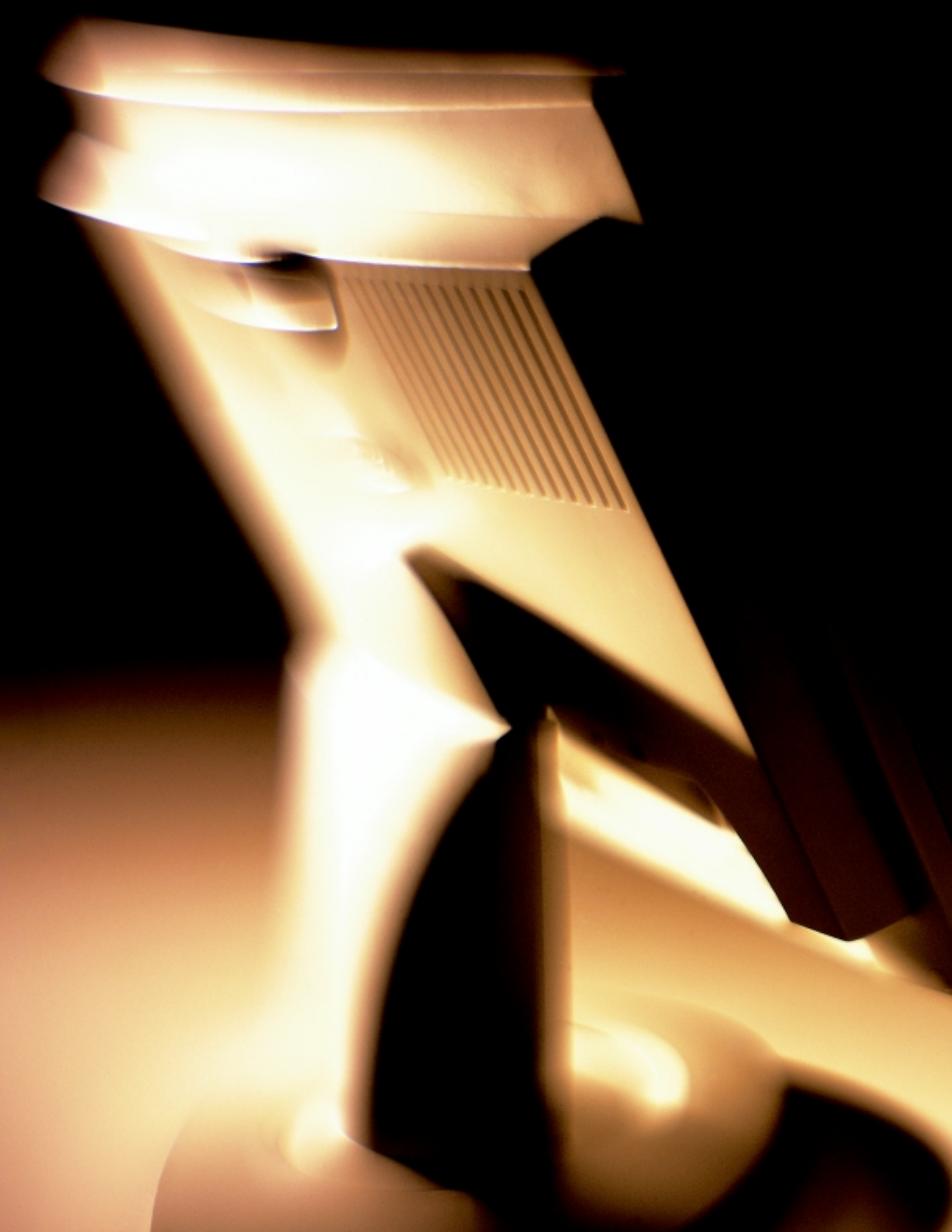
The SoftCell chipset consists of a 65 mega sample 14-bit analog-to-digital converter, quad digital receive signal processor, 125 MHz 14-bit digital-to-analog converter, quad digital transmit signal processor and two fixed-function DSPs. It is an excellent example of ADI's ability to combine its high-performance analog and digital signal processing technologies to offer the best possible solution to the customer.

Base stations also use many high-speed general-purpose products throughout the signal chain. We estimate that ADI accounts for approximately 50% of the analog and mixed-signal content of base stations around the world with such notable customers as Motorola, Nortel, Ericsson and Lucent. And we have begun sampling our newest TigerSHARC®, the highest-performance DSP on the market, to leading base station manufacturers.





ANALOG
DEVICES
ADTSP-2183
BST-T15
ERC3665A-32
9729



INCREASING ANALOG, MIXED-SIGNAL AND DSP CONTENT IN PCs

PCs have evolved to become much more than just computers. They now routinely include advanced power monitoring and control, audio and video signal processing, high-resolution graphics and displays and communications links. ADI has seized the opportunity to help PC manufacturers differentiate their products by supplying all of these value-added enhancements, providing ADI with the opportunity to substantially increase our content-per-PC while earning good margins.

PROCESSOR MONITORING AND CONTROL

As processor speeds continue to increase, monitoring voltages and temperature becomes critical to maximizing overall system performance. We believe ADI technology has captured the number one market share for this application: ADI chips now provide this functionality in more than half of all laptops, and we have broadened our product line to include products for high-end desktop PCs and servers.

POWER MANAGEMENT

The laptop PC market is the fastest-growing area of the computer market as many users employ their laptops as their main file storage and communications vehicles. ADI power management technology can be found in many leading laptops, including the most popular models from Dell, Toshiba and NEC. Our Active Voltage Positioning (AVP) technology, jointly developed with Intel, allows the central processor to run at lower voltage and cooler temperatures at any given speed.

FLAT PANEL DISPLAYS AND PROJECTORS

Liquid Crystal Displays (LCDs) for laptop computers, flat panel displays and multimedia projectors all require high-performance analog technology, and ADI has developed the leading position with the most important customers in this market. Our specialized amplifiers set up row and column voltages in thin film transistor displays used in laptops. And our highest speed converters are used in high-end (15 inches and upward) flat panel monitors to digitize RGB output, as well as in LCD projectors where ADI technology market share exceeds 65%.

HIGH-PERFORMANCE AUDIO SIGNAL PROCESSING

PC audio has come a long way since the early days, with PCs now routinely downloading and playing CD-quality audio. These developments have significantly raised the technology bar and changed what was once a commodity application to one that requires the most advanced signal processing technology. Our latest AC'97, v.2.1 codecs, developed in conjunction with Intel and Microsoft, utilize our patented "sample rate conversion" technology and include Windows® software drivers. We estimate that during 2000, ADI could capture over 50% of all high-performance PC audio sockets.

INCREASING ANALOG, MIXED-SIGNAL AND DSP CONTENT IN DIGITAL ENTERTAINMENT

Consumer electronic products have historically used commodity analog ICs for audio and video signal processing applications. But the digital revolution has had a significant impact on consumer electronics, and a new age of digital entertainment has arrived.

CAMCORDERS

The digital video camera market grew by more than 40% in 1999. Digital camcorders require high-speed analog-to-digital converters to convert images into digital format. We have expanded beyond our original collaboration with Sony and have now established solid positions with Matsushita, JVC and Samsung. ADI technology can be found in approximately 50% of all camcorders, including a disproportionately higher share of the new digital camcorders.

DIGITAL CAMERAS

Digital camera usage has grown significantly as prices have been reduced and video images have become important transmission content on the Internet. The digital still camera market grew by over 80% in 1999 and ADI provides high-speed analog front ends to the largest camera manufacturers. We estimate that ADI technology powers approximately 60% of all digital cameras, including cameras from Sony, Sanyo, Fuji and Casio. The ever-increasing pixel count in both digital cameras and camcorders continues to drive conversion speed requirements of the analog front ends. At the same time, advanced power management products are required to maximize the usage time between battery charges.

DVD PLAYERS

Digital video disc (DVD) players provide video and audio fidelity much higher than that of VCRs. Approximately six million high-end DVD players were sold in 1999, and industry analysts project a four-fold increase in DVD player sales by 2002. ADI provides high-performance video encoders and CD-quality DACs to the largest high-end DVD manufacturers. We estimate that our encoders are included in over 50% of all high-end DVD players. ADI's 10-bit video conversion and "Color Stream Processing" features are being promoted in the media by the leading DVD brand suppliers. On the audio side, ADI's audio converters are used to drive six channels of high-quality audio.

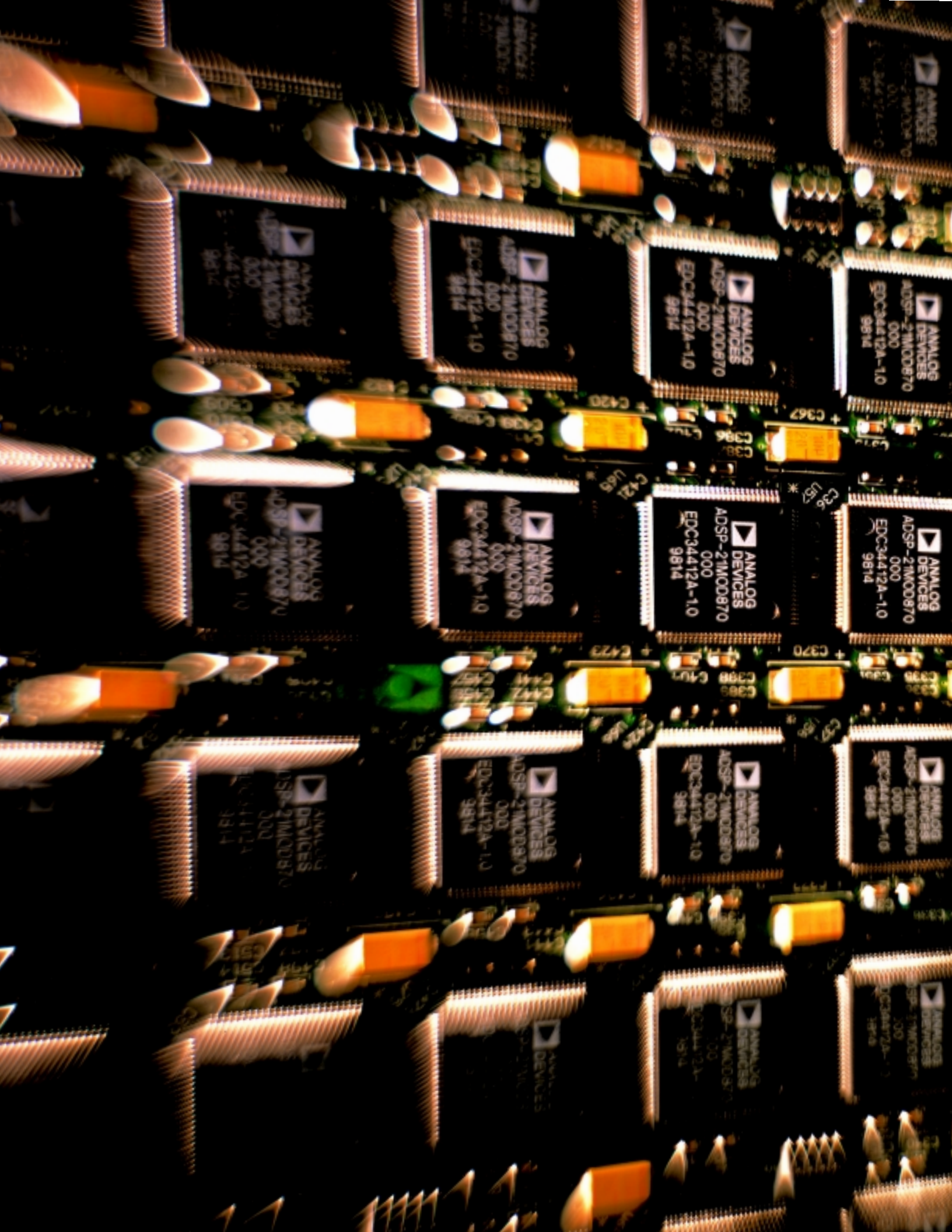
SURROUND SOUND CD-QUALITY AUDIO

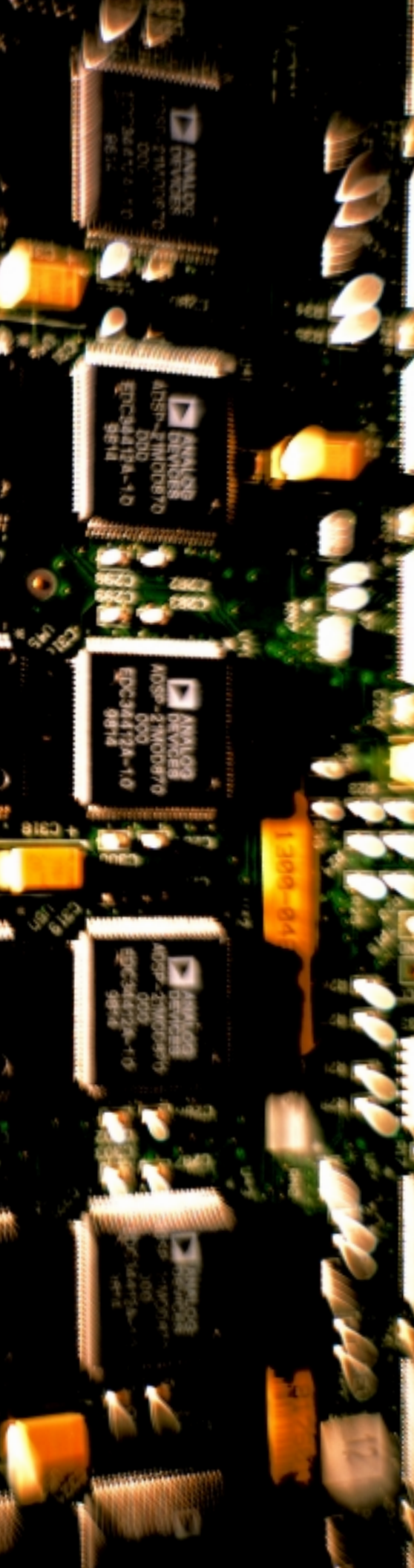
As surround sound home theatres have become affordable to performance-conscious consumers, our 32-bit SHARC® DSP has become the *de facto* standard for creating the highest-performance Dolby AC-3® decoder in the marketplace. Our customers include Bose, Denon, Sony and Kenwood. In addition, our high-resolution converters are designed into the top end of the high fidelity market.





 FUJIFILM





THE INDUSTRIAL REVOLUTION: PART TWO

The industrial market has historically been ADI's largest market as high-performance analog technology is required to sense and interface with real-world signals such as position, temperature, acceleration and pressure. We have tens of thousands of industrial customers around the world who rely on ADI for the most advanced solutions to their application needs. Since the industrial market is highly fragmented and product usage per application is moderate, product life cycles tend to be long and profit margin opportunities are very good.

As our high-performance signal processing technology has become mainstream in very high-volume markets, product costs have declined significantly. These much lower-cost, high-performance products have, in turn, stimulated a revival in the industrial market, where the pace of innovation has accelerated and the penetration of electronics in new industrial products is increasing rapidly.

DIGITAL MOTOR CONTROL BECOMES MAINSTREAM TECHNOLOGY

For almost 20 years, motor manufacturers have sought a cost-effective technique for reducing the power consumed by AC-synchronous motors by operating them at speeds that vary with load requirements. Today, with ADI's analog and DSP technology coupled with systems knowledge, digital motor control has become a reality. We were first to the market with a complete digital motor control solution and have lined up the largest motor manufacturers in the world as our key customers. During 2000, our products will begin to appear in high-end air conditioners, washing machines and refrigerators. Given that tens of millions of motors will ultimately use digital speed controls, we believe that ADI is very well positioned to capture a meaningful portion of the semiconductor content of this rapidly growing market.

AUTOMATIC TESTERS ARE ANALOG AND MIXED-SIGNAL INTENSIVE

As the pin count on products to be tested continues to increase, the need for integration is critical, and ADI has proven its ability to integrate pin electronics, timing, analog and mixed-signal products into a single total solution. This has resulted in ADI's becoming the world's largest supplier of analog and mixed-signal products used in memory, mixed-signal and VLSI testers. We believe that ADI supplies over 50% of all pin electronics and converters consumed by the automatic test equipment (ATE) market.

Our ATE customer base includes the largest test equipment suppliers in the United States, Europe and Asia. The expansion of our customer base during 1999 could lead to more than doubling our ATE revenues in 2000.

MICROCONVERTERS BECOME A NEW PRODUCT CATEGORY FOR INDUSTRIAL PRODUCTS

Late last year we introduced a new family of what we have termed “MicroConverters,” which integrate data acquisition, data conversion, data processing and nonvolatile memory on a single chip. During its first quarter on the market, this product family received the largest number of hits on our website for applications in battery-powered portable instrumentation, medical monitoring and high-speed communications products.

The on-board microcontroller can be user-programmed for a wide variety of functions including calibration, linearization, signal level adjustment, communications and data logging. There has been a long-standing customer demand for this type of programmable integrated component, particularly in process control applications. Until now, it has not been possible to integrate precision analog circuitry and nonvolatile memory on a single chip.

MEDICAL IMAGING

The demand for higher-resolution medical X-ray, CAT scan and ultrasound equipment can only be met by using the highest-performing signal processing components. While earlier generation systems used primarily analog signal processing, today’s systems employ banks of cost-effective, high-speed converters to digitize incoming signals. Multiprocessor DSP technology is then used to process the image and perform the “digital beam forming” function. As the installed base of medical imaging equipment is upgraded, ADI’s design-ins at companies such as GE, Siemens and Philips should generate strong high-performance converter and DSP demand.

MICROMACHINING — BREAKTHROUGH TECHNOLOGY FOR MOTION-SENSING APPLICATIONS

ADI has become the world’s leading developer of Micro-Electro-Mechanical-Systems (MEMS®) technology, as well as the lowest-cost supplier. ADI is unique in its ability to combine a sensor and analog signal processing circuitry on a single IC, allowing significant cost and performance advantages over competitors’ multichip approaches.

Our airbag sensors are now being installed in 145 different vehicle models worldwide, and we have achieved a clear number one market share. The outlook for the coming years is particularly strong, as new-generation airbag systems adopt five or more sensors per vehicle, versus the single sensor approach commonly used to date. Our accelerometers are also being used in high-volume consumer and industrial applications that require the ability to measure tilt, motion and vibration. In addition, optical MEMS represents another exciting growth opportunity as the increasing demand for high-speed switching within fiber optic networks is opening up new opportunities for this technology.



THE ADI BUSINESS MODEL

In last year's annual report, we defined a medium-term business model of 20% to 25% annual sales growth, 25% operating profit as a percentage of sales and 25% return on capital (ROC). We made good progress during fiscal 1999 toward achieving these goals. By the fourth quarter, our revenues were growing at a rate substantially above 25%, our operating profit margin reached 21% and ROC reached 18%. We achieved these results by:

IMPROVING PROFIT MARGINS IN ANALOG PRODUCTS

Increased market demand allowed us to run our wafer fabs at higher utilization rates, significantly improving profit margins during 1999. We also benefited from a worldwide organizational focus on improving asset productivity in our fabs and back-end operations.

During 1999, we began a multiyear process to move more than 90% of our testing offshore. This program recognizes the high levels of confidence we have in our operations in the Philippines and Taiwan. By the fourth quarter, we were performing more than 75% of our testing at offshore locations.

Also during 1999, we restructured our manufacturing operations around the world to centralize manufacturing planning into one organization. This effort will shorten cycle times, lower costs, increase asset turnover and provide a higher level of service to our customers.

R&D LEVERAGE IN DSP PRODUCTS

During 1999, we funded four DSP core developments to enhance our position in both fixed- and floating-point DSPs. We also entered into a far-ranging joint development agreement with Intel to develop an advanced low-power DSP core and development tools that will appear on the market in late 2000.

While the development of new DSP products and cores is an expensive



Chairman Ray Stata (left) and President and Chief Executive Officer Jerry Fishman

undertaking, we are clearly enjoying the benefit of these investments. During the fourth quarter, our DSP revenues were 83% higher than for the same quarter of the prior year. During peak spending periods in early 1999, DSP research and development (R&D) reached approximately 30% of DSP revenues. But as our DSP sales continue to increase and our spending on new core development levels off, we expect the DSP R&D

ratio will return to more normal levels, thereby raising our overall profit margins in 2000.

PROSPECTS FOR EXCEEDING \$2 BILLION IN REVENUE IN 2000

Based on an extremely strong product-demand cycle and continuing overall strength in the semiconductor market, we believe revenues could grow more than 40%, allowing us to exceed \$2 billion in revenues in 2000. We entered 2000 with the wind at our backs, and we intend to continue building on the solid momentum and growing backlog established during the second half of fiscal 1999. We also have the opportunity for continuing good operating leverage as our revenues grow at above-average rates.

In addition, our new product development results have never been stronger. During the fourth quarter, approximately 30% of our revenues were derived from products introduced in the previous six quarters, giving us confidence that our strong orders are the result of

strong secular growth and new product trends, as well as a generally strong semiconductor market.

During 2000, we will continue to allocate our R&D investments to the most promising opportunities in high-growth markets, capitalize on the very substantial value that our products add to our customers' solutions and continue to focus on increasing our profit margins and asset utilization.

“...our new product development results have never been stronger. During the fourth quarter, approximately 30% of our revenues were derived from products introduced in the previous six quarters...”

THE LONGER TERM

SIGNAL PROCESSING WILL DRIVE OUR GROWTH

Signal processing will be to the new decade what data processing was to the 1980s and 1990s. As a result, most market forecasters predict that high-performance analog and digital signal processing will represent two of the best growth opportunities in the semiconductor market for many years to come. ADI has vast opportunities for its technology. The challenge will be to select those that provide the highest growth potential and offer good returns on our R&D investments.

ENGINEERS ARE THE KEY TO OUR FUTURE

Over the past few years, recognizing the vast opportunities available to ADI, we have continued to increase our R&D investments to record levels. We are primarily focused on markets in which it is realistic for ADI to capture either the number one or number two market position across many generations of our customers' products. Almost 100% of the growth of our workforce since 1995 has resulted from hiring engineers, and we now employ more than 1,700 of the best analog and DSP engineers in the world, up from 600 just five years ago. These engineers are now engaged in design work in 21 locations across the United States, Europe and Asia.

Hiring the best technical professionals in one of the most competitive employment climates in many years remains a constant challenge. We will continue working hard to make ADI one of the best environments for technical professionals by providing the most compelling technical challenges, the freedom to pursue new ideas and the best overall rewards. While we are always on the lookout for experienced engineers, most of our

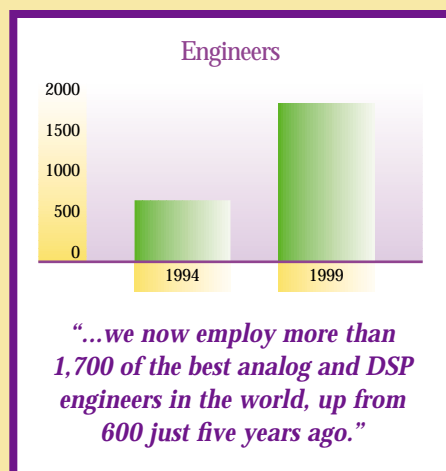
"ADI has vast opportunities for its technology. The challenge will be to select those that provide the highest growth potential and offer good returns on our R&D investments."

new hires are recent engineering graduates from the best technical universities, who are subsequently trained and mentored by our most experienced and well-known senior engineers and ADI fellows. We plan to add 200 freshly-minted engineering graduates to our workforce this year.

STRENGTHENING OUR ORGANIZATION

We rely on internal development as the primary vehicle for organizational progress. During 1999, we promoted ten senior-level managers to vice presidents. Most of these long-term ADI professionals have extensive product management experience and will increasingly shoulder much of the day-to-day responsibility for managing the many business units that, collectively, we are relying on for most of our future growth.

We want to thank all of our employees around the world who have worked so tirelessly over the past few years to put Analog Devices in the strongest position in its history. It is their perseverance and dedication to winning that keep us strong. While many challenges remain, and there will always be a long list of opportunities for improvement, we are well positioned with the right technology and the right workforce to provide great products to our customers and solid returns to our shareholders.



Sincerely,

Ray Stata

Ray Stata, *Chairman of the Board*

Jerald G. Fishman

Jerald G. Fishman, *President and Chief Executive Officer*

January 15, 2000

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

<i>(Dollars in thousands, except per share data)</i>	1999	1998	1997	1996	1995
Net sales	\$ 1,450,379	\$1,230,571	\$1,243,494	\$1,193,786	\$ 941,546
Change in sales over prior year	18%	(1%)	4%	27%	22%
Gross margin	714,736	588,486	620,963	600,850	476,975
% of sales	49%	48%	50%	50%	51%
Research and development expense	257,039	219,354	196,148	177,772	134,265
% of sales	18%	18%	16%	15%	14%
Write-off of purchased in-process research and development	5,140	–	–	–	–
Selling, marketing, general and administrative expense	209,639	207,487	191,613	195,842	184,943
% of sales	14%	17%	15%	16%	20%
Restructuring charge	–	17,000	–	–	–
Gain on sale of business, net	–	(13,100)	–	–	–
Operating income	242,918	157,745	233,202	227,236	157,767
% of sales	17%	13%	19%	19%	17%
Equity in loss (income) of WaferTech	1,149	9,780	(214)	97	–
Total nonoperating (income) expenses	(15,771)	(2,494)	(2,463)	(3,601)	(1,668)
Income before income taxes	257,540	150,459	235,879	230,740	159,435
% of sales	18%	12%	19%	19%	17%
Provision for income taxes	60,721	30,971	57,660	58,839	40,165
Effective income tax rate	24%	21%	24%	26%	25%
Net income before cumulative effect of change in accounting principle	196,819	119,488	178,219	171,901	119,270
Cumulative effect of change in accounting principle	–	(37,080)	–	–	–
Net income after cumulative effect of change in accounting principle	\$ 196,819	\$ 82,408	\$ 178,219	\$ 171,901	\$ 119,270
Earnings per share before cumulative effect of change in accounting principle:					
Basic	1.16	0.74	1.13	1.12	0.79
Diluted	1.10	0.71	1.04	1.03	0.75
Earnings per share after cumulative effect of change in accounting principle:					
Basic	1.16	0.51	1.13	1.12	0.79
Diluted	1.10	0.50	1.04	1.03	0.75
Shares used in computing net income per share (in thousands):					
Basic	168,241	161,574	159,594	153,362	149,369
Diluted	181,452	177,875	177,309	171,377	158,715
Pro forma amounts with the change in accounting principle related to revenue recognition applied retroactively:					
Net sales	–	\$1,230,571	\$1,214,602	\$1,183,186	
Net income	–	119,488	167,515	168,328	*
Net income per share:					
Basic	–	0.74	1.06	1.10	*
Diluted	–	0.71	0.98	1.01	*

*Data was not available in sufficient detail to provide pro forma information for this year.

CONDENSED CONSOLIDATED BALANCE SHEETS

<i>(Dollars in thousands)</i>	1999	1998	1997	1996	1995
ASSETS					
Current assets:					
Cash, cash equivalents and short-term investments	\$ 762,444	\$ 304,906	\$ 340,607	\$ 299,919	\$ 151,113
Accounts receivable, net	267,127	207,361	255,886	234,434	173,028
Inventories	248,936	275,076	225,966	218,877	143,962
Other	100,603	116,186	72,970	59,607	49,616
Total current assets	1,379,110	903,529	895,429	812,837	517,719
Property, plant and equipment, net	642,806	703,431	661,635	583,322	431,962
Intangible assets, deferred charges and other assets	196,438	254,770	206,789	112,113	43,668
	\$ 2,218,354	\$1,861,730	\$1,763,853	\$1,508,272	\$ 993,349
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current liabilities:					
Short-term borrowings, current portion of long-term debt and capital lease obligations	\$ 97,061	\$ 14,459	\$ 11,733	\$ 11,138	\$ 2,359
Accounts payable and accrued liabilities	214,653	139,021	173,098	166,826	166,056
Deferred income on shipments to distributors	100,788	113,784	37,013	38,400	27,588
Income taxes payable	66,761	53,595	52,550	46,459	50,086
Total current liabilities	479,263	320,859	274,394	262,823	246,089
Long-term debt and capital lease obligations	16,214	340,758	348,852	353,666	80,000
Other noncurrent liabilities	106,846	71,724	52,477	28,948	11,294
Stockholders' equity	1,616,031	1,128,389	1,088,130	862,835	655,966
	\$ 2,218,354	\$1,861,730	\$1,763,853	\$1,508,272	\$ 993,349

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

<i>(Dollars in thousands)</i>	1999	1998	1997	1996	1995
Net income	\$ 196,819	\$ 82,408	\$ 178,219	\$ 171,901	\$ 119,270
Adjustments to net income	230,502	142,277	107,521	(28,087)	90,980
Cash flows from operating activities	427,321	224,685	285,740	143,814	210,250
Cash flows from investing activities	(358,041)	(186,960)	(225,819)	(305,569)	(238,707)
Cash flows from financing activities	21,821	(62,040)	15,133	301,495	(10,898)
Effect of exchange rate changes on cash	1,459	(1,955)	4,438	1,066	(455)
Net increase (decrease) in cash and cash equivalents	92,560	(26,270)	79,492	140,806	(39,810)
Cash and cash equivalents at beginning of year	263,331	289,601	210,109	69,303	109,113
Cash and cash equivalents at end of year	\$ 355,891	\$ 263,331	\$ 289,601	\$ 210,109	\$ 69,303
Number of employees at end of year	7,400	7,200	7,500	6,900	6,000
Number of shareholders of record	4,600	6,200	5,000	4,900	4,500

QUARTERLY TRENDS

SALES AND EARNINGS

	Sales, in Millions of Dollars						Earnings per Share, in Dollars					
	1Q	2Q	3Q	4Q	Year	Growth	1Q	2Q	3Q	4Q	Year	Change
1995	208.0	230.0	246.3	257.2	941.5	22%	.15	.18	.20	.22	.75	53%
1996	280.8	303.3	305.0	304.7	1,193.8	27%	.25	.26	.26	.26	1.03	37%
1997	292.1	300.8	318.1	332.5	1,243.5	4%	.23	.25	.27	.29	1.04	1%
1998	317.8	319.4	295.7	297.7	1,230.6	(1%)	.03	.25	.06	.16	.50	(52%)
1999	300.5	340.1	378.8	431.0	1,450.4	18%	.18	.22	.30	.40	1.10	120%

RETURN ON CAPITAL AND EQUITY

	Annual Return on Average Capital (a)					Annual Return on Average Equity (b)				
	1Q	2Q	3Q	4Q	Year	1Q	2Q	3Q	4Q	Year
1995	16%	18%	19%	20%	18%	18%	20%	21%	22%	20%
1996	18%	16%	16%	15%	17%	24%	24%	23%	21%	23%
1997	13%	14%	14%	15%	14%	18%	18%	19%	19%	19%
1998	1%	12%	3%	8%	6%	1%	16%	3%	9%	7%
1999	9%	10%	14%	18%	13%	10%	12%	15%	19%	14%

EQUITY AND MARKET PRICE PER SHARE

	Ending Equity per Share, in Dollars (c)				Average Market Price per Share, in Dollars				Valuation Ratio (d)			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
1995	3.63	3.83	4.07	4.30	11.24	12.56	16.29	17.63	3.1	3.3	4.0	4.1
1996	4.58	4.85	5.18	5.44	17.05	20.00	18.65	18.95	3.7	4.1	3.6	3.5
1997	5.67	5.92	6.25	6.72	24.93	24.05	28.01	33.52	4.4	4.1	4.5	5.0
1998	6.73	7.01	6.91	7.04	28.29	33.34	26.58	17.26	4.2	4.8	3.8	2.5
1999	7.25	8.36	8.71	9.24	26.32	30.79	43.30	51.84	3.6	3.7	5.0	5.6

STOCK PRICES

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

	1999				1998			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
High	32 ¹ / ₄	38 ³ / ₈	51	60 ⁷ / ₁₆	33 ⁹ / ₁₆	39 ⁵ / ₈	39	24 ³ / ₈
Low	19 ⁵ / ₁₆	24 ³ / ₈	35 ¹ / ₁₆	41 ⁵ / ₈	23 ³ / ₄	27 ¹ / ₈	21 ⁷ / ₁₆	12

No cash dividends have ever been paid by the Company.

- (a) Total capital is the sum of stockholders' equity plus total debt, including capitalized leases. Return on average capital is the annualized sum of net income and after-tax interest charges, divided by average total capital employed during the period.
- (b) Return on average equity is annualized net income divided by average equity employed during the period.
- (c) Ending equity per share is based upon shares outstanding at the end of each quarter.
- (d) Valuation ratio is quarterly average market price per share divided by ending equity per share.

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COMPANY OVERVIEW

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

As of the end of fiscal 1999, approximately 40% of Analog's revenues came from the communications market, making it the Company's largest and fastest-growing served market. Communications applications include wireless handsets and base stations, as well as products used for high-speed access to the Internet, including ICs used in ADSL and cable modems and central office networking equipment.

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

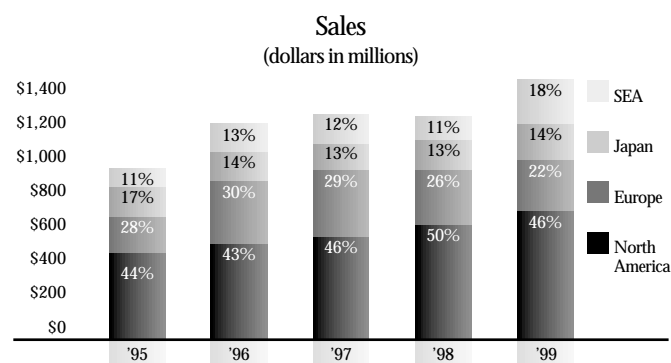
Analog's products are sold worldwide through a direct sales force, third-party industrial distributors and independent sales representatives. The Company has direct sales offices in 18 countries, including the United States. Approximately 46% of fiscal 1999 revenue came from customers in North America, while most of the balance came from customers in Western Europe and the Far East.

The Company is headquartered near Boston, in Norwood, Massachusetts, and has manufacturing facilities in Massachusetts, California, North Carolina, Ireland, the Philippines and Taiwan. Founded in 1965, Analog Devices employs approximately 7,400 people worldwide. The Company's stock is listed on the New York Stock Exchange under the symbol ADI and is included in the Standard & Poor's 500 Index.

RESULTS OF OPERATIONS

Sales were \$1,450 million in fiscal 1999, \$1,231 million in fiscal 1998 and \$1,243 million in fiscal 1997. The significant growth in the use of analog, digital and mixed-signal ICs to address the signal processing needs of the growing broadband and wireless communications, computer and computer peripherals markets was the main reason for the sales increase in fiscal 1999. In addition,

a recovery in the semiconductor industry generally, partially offset by a decline in Automatic Test Equipment (ATE) sales, contributed to the sales increase in fiscal 1999. Sales declined slightly during fiscal 1998 from the levels achieved in fiscal 1997, primarily due to a decline in sales of Global System for Mobile Communications (GSM) cellular phone chipsets and a decline in disk drive product sales as a result of the disposal of the disk drive IC business in fiscal 1998. These declines were partially offset by an increase in analog IC sales. Sales of assembled products continued to decline in fiscal 1999 and accounted for 3% of the Company's net sales in fiscal 1999, down from 4% in the prior fiscal year. Assembled products include multichip modules, hybrids and printed circuit board modules.

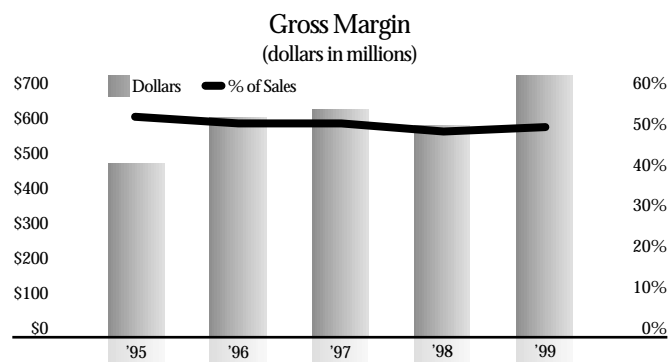


Demand for the Company's communications, computer and consumer products resulted in sales increases in all geographic regions during fiscal 1999. Sales to North American customers increased 8% over fiscal 1998. Sales in Europe in the first half of fiscal 1999 had declined from prior year levels but, as the fiscal year progressed, demand increased, resulting in a relatively flat level of sales year over year. Sales in Japan increased 23% as demand increased for the Company's products as the Japanese economy continued its recovery. Sales in other Southeast Asian countries in fiscal 1999 doubled from the levels achieved in fiscal 1998. The increased demand was attributed to the increased use of the Company's products in the communications and computer products market, both of which experienced significant growth during the year.

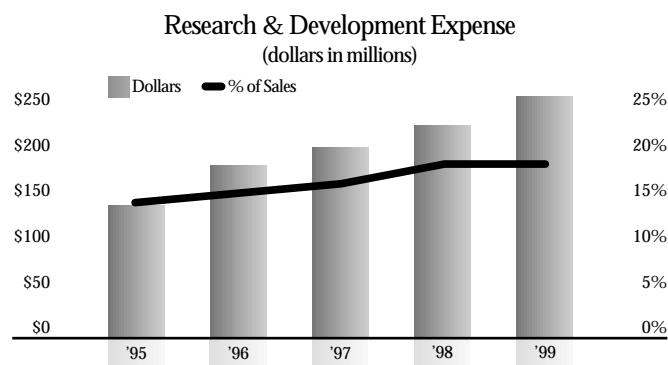
Sales to North American customers increased 9% during fiscal 1998 over the levels achieved in the prior year, due to increased sales of analog IC products. In Europe, sales declined in fiscal 1998 from the levels achieved in fiscal 1997, primarily due to a decline in GSM sales. Sales in Japan during fiscal 1998 remained flat to the levels

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achieved in fiscal 1997. Sales in other Southeast Asian countries declined during fiscal 1998, primarily because of a decline in the sales of disk drive IC products, which was partially offset by increases in the sale of analog IC products.



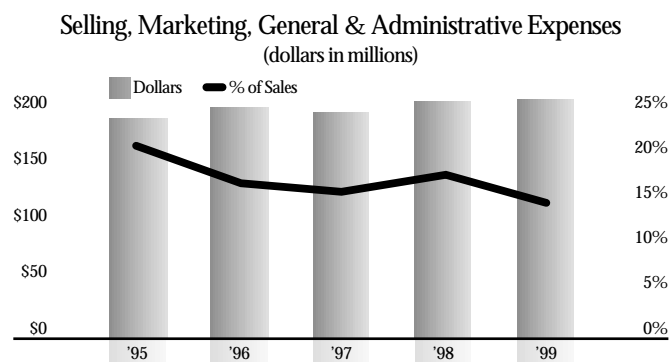
Gross margin increased to 49.3% of sales in fiscal 1999, from 47.8% in fiscal 1998. This increase was primarily attributable to higher sales and tight control of internal manufacturing spending. The decline in gross margin from 49.9% in fiscal 1997 to 47.8% in fiscal 1998 was principally due to a reduction in demand in fiscal 1998, which caused the Company to reduce production rates, particularly in the second half of the year.



Research and development (R&D) expense was \$257 million in fiscal 1999, compared to \$219 million in fiscal 1998. As a percentage of sales, R&D spending remained flat at approximately 17.8%. The Company expects to continue the development of innovative technologies and processes for new products targeted for broadband and wireless communications applications, imaging, audio and high-performance power and thermal management products for computer and consumer product applications. The Company believes that a continued commitment to research and development is essential in order to maintain product leadership with its existing products and to provide innovative new product offerings, and therefore

expects to continue to make significant R&D investments in the future. In fiscal 1998, R&D expenses increased approximately 12% to \$219 million, or 17.8% of sales, up from 15.8% of sales in fiscal 1997.

During the second quarter of fiscal 1999, the Company acquired two DSP tools companies, White Mountain DSP, Inc. of Nashua, New Hampshire and Edinburgh Portable Compilers Limited, of Edinburgh, Scotland. The total cost of these acquisitions was approximately \$23 million with additional cash consideration of up to a maximum of \$10 million payable if the acquired companies achieve certain revenue and operational objectives. In connection with these acquisitions, the Company recorded a charge of \$5.1 million for the write-off of in-process research and development.



Selling, marketing, general and administrative (SMG&A) expenses were \$210 million in fiscal 1999, an increase of \$3 million from the \$207 million recorded in the prior fiscal year. As a percentage of sales, SMG&A decreased from 16.9% for fiscal 1998 to 14.5% for fiscal 1999 due to continued control over spending despite sales increases. In fiscal 1998, SMG&A expenses increased \$15 million from the \$192 million recorded in fiscal 1997. This increase was primarily attributable to an \$8 million charge related to collection difficulties experienced by the Company. As a result, SMG&A expenses as a percentage of sales increased from 15.4% in fiscal 1997 to 16.9% in fiscal 1998.

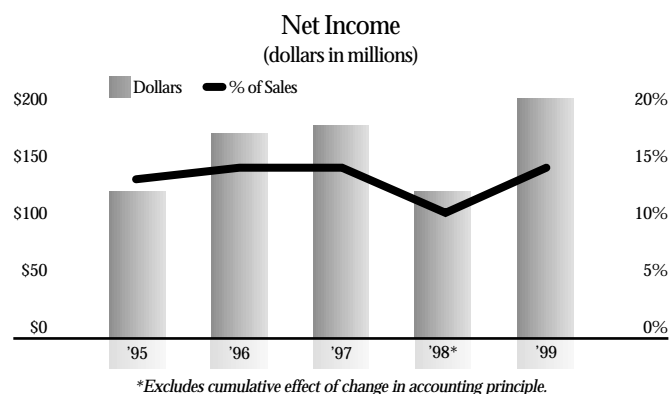
Including the impact of the write-off of in-process research and development, the Company's operating income was 16.7% of sales for fiscal 1999. The Company's operating income for fiscal 1998, including the impact of a \$17 million restructuring charge and a \$13 million net gain on the sale of its disk drive IC business in fiscal 1998, was 12.8% of sales. The Company's operating income was 18.8% of sales for fiscal 1997.

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

The Company's effective income tax rate increased to 23.6% for fiscal 1999 from 20.6% in fiscal 1998 due to a shift in the mix of worldwide profits. Additionally, in fiscal 1998 the Company utilized \$5.6 million of capital loss carryforwards for tax purposes, which reduced the Company's valuation allowance from \$5.6 million at November 1, 1997 to \$0 at October 31, 1998. The effective tax rate for fiscal 1997 was 24.4%.

In the fourth quarter of fiscal 1998, the Company changed its accounting method for recognizing revenue on all shipments to international distributors and certain shipments to domestic distributors. The change was made with an effective date of November 2, 1997 (the beginning of fiscal 1998). Prior to the change, the Company had historically deferred revenue on most shipments made to domestic distributors until the products were resold by the distributors to end users, but recognized revenue on shipments to international distributors and certain shipments to domestic distributors upon shipment to the distributors, net of appropriate reserves for returns and allowances. As a result of this accounting change, revenue recognition on shipments to all distributors worldwide is deferred until the products are resold to the end users. The Company believes that deferral of revenue and related gross margin on shipments to distributors until the product is shipped by the distributors is a more meaningful measurement of results of operations because it better conforms to the substance of the transaction considering the changing business environment in the international marketplace; is consistent with industry practice; and will, accordingly, better focus the entire organization on sales to end users and, therefore, is a preferable method of accounting. The cumulative effect in prior years of the change in accounting principle was a charge of approximately \$37 million (net of \$20 million of income taxes) or \$0.21 per diluted share.



For fiscal 1999, net income increased 65% before the fiscal 1998 change in accounting principle, and 139% after the change in accounting principle, to \$197 million, and diluted earnings per share was \$1.10. For fiscal 1998, net income before the cumulative effect of the change in accounting principle was \$119 million, and diluted earnings per share was \$0.71. Net income after the cumulative effect of the change in accounting principle was \$82 million for fiscal 1998, and diluted earnings per share was \$0.50. Net income was \$178 million for 1997, and the diluted earnings per share was \$1.04.

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, (FAS 133), "Accounting for Derivative Instruments and Hedging Activities." This statement provides a comprehensive and consistent standard for the recognition and measurement of derivatives and hedging activities. In July 1999, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 137, which defers the effective date of FAS 133 for one year. Accordingly, the Company will adopt FAS 133 during fiscal 2001 as required. The Company is currently evaluating the impact of FAS 133 on the results of operations and financial position.

In March 1998, Statement of Position 98-1, (SOP 98-1), "Accounting for the Cost of Computer Software Developed for or Obtained for Internal Use" was issued. The Company is required to adopt SOP 98-1 in fiscal 2000. The Company believes that, based upon current circumstances, the effect of adopting the standard will not have a significant impact on the results of operations or financial position.

In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin 101, (SAB 101), "Revenue Recognition in Financial Statements." SAB 101 summarizes the application of generally accepted accounting

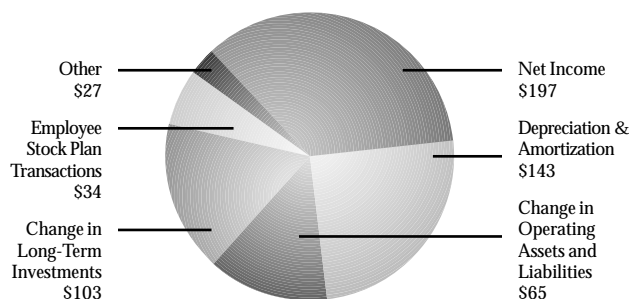
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principles to revenue recognition in financial statements. The Company does not expect SAB 101 to have a material effect on the results of operations or financial position.

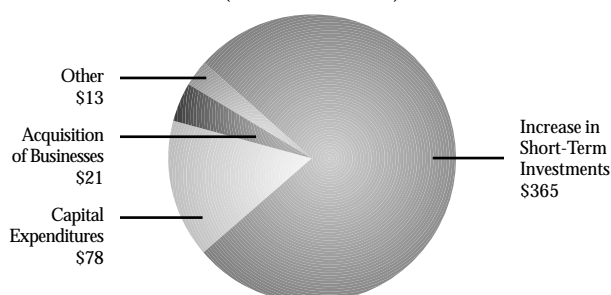
The impact of inflation on the Company's business during the past three years has not been significant.

LIQUIDITY AND CAPITAL RESOURCES

Sources of Cash—\$569
(dollars in millions)



Uses of Cash—\$477
(dollars in millions)



At October 30, 1999, the Company had \$762 million of cash, cash equivalents and short-term investments compared to \$305 million at October 31, 1998. The increase in cash, cash equivalents and short-term investments was primarily due to operating cash inflows of \$427 million (29% of fiscal 1999 sales), \$105 million received in January 1999, related to the sale of the Company's investment in WaferTech and lower capital spending. The Company's operating activities generated net cash of \$225 million, or 18% of sales in fiscal 1998. Investing activities used \$358 million in fiscal 1999 and \$187 million in fiscal 1998, while financing activities generated \$22 million in fiscal 1999 and used \$62 million in fiscal 1998. The Company's primary source of funds in fiscal 1999 and fiscal 1998 was net cash generated by operations.

Accounts receivable of \$267 million at the end of fiscal 1999 increased \$60 million or 29% from \$207 million at the end of fiscal 1998. This increase resulted principally

from a \$133 million increase in sales from the fourth quarter of fiscal 1998 to the fourth quarter of fiscal 1999. Days sales outstanding improved from 63 at the end of the fourth quarter of fiscal 1998 to 56 at the end of the fourth quarter of fiscal 1999. As a percentage of annualized fourth quarter sales, accounts receivable was 15.5% at the end of fiscal 1999, down from 17.4% at the end of fiscal 1998.

Inventories declined \$26 million, or 10%, from the prior year to \$249 million at the end of fiscal 1999. Inventories as a percentage of annualized fourth quarter sales decreased to 14% for the year ended October 30, 1999 from 23% for the year ended October 31, 1998. Inventory levels had increased at the end of fiscal 1998 as demand levels had declined in the second half of fiscal 1998. As demand increased through fiscal 1999, inventory levels declined.

Net additions to property, plant and equipment of \$78 million for fiscal 1999 were funded with a combination of cash on hand and cash generated from operations. Capital spending in fiscal 1999 was down substantially from the \$167 million spent in fiscal 1998. The decrease in capital expenditures was attributable to the Company's efforts to constrain all spending, including capital expenditures, until sales growth resumed. The Company currently plans to make capital expenditures of between \$200 million and \$250 million in fiscal 2000. Depreciation expense is expected to increase to \$150 million in fiscal 2000.

During the second quarter of fiscal 1999, the Company acquired two DSP tools companies, White Mountain DSP, Inc. of Nashua, New Hampshire and Edinburgh Portable Compilers Limited, of Edinburgh, Scotland. The total cost of these acquisitions was approximately \$21 million in cash and \$2 million in common stock of the Company, with additional cash consideration of up to a maximum of \$10 million payable if the acquired companies achieve certain revenue and operational objectives. These acquisitions were accounted for as purchases, and the excess of the purchase price over the fair value of assets acquired was allocated to existing technology, workforce in place, tradenames and goodwill, which are being amortized over periods ranging from six to ten years. In connection with these acquisitions, the Company recorded a charge of \$5.1 million for the write-off of in-process research and development. In the fourth quarter of 1999, the Company invested an additional \$4 million in WaferTech.

In fiscal 1999, financing activities generated cash of \$22 million. The issuance of common stock under stock purchase and stock option plans generated cash of \$34 million, and proceeds from variable rate borrowings

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generated cash of \$2 million. These increases were offset by \$14 million of cash used for the repayment of capital lease obligations.

As of March 11, 1999 the Company had converted \$229,967,000 of the \$230 million principal amount of its 3½% Convertible Subordinated Notes (Notes) due 2000 into an aggregate of 10,983,163 shares of the Company's common stock, and the remaining Notes were redeemed by a cash payment of \$33,000. As a result of this conversion, the Company's debt-to-equity ratio was reduced to 7% as compared to 31% in the prior year.

At October 30, 1999, the Company's principal sources of liquidity were \$762 million of cash and cash equivalents and short-term investments. In addition, the Company has various lines of credit both in the U.S. and overseas, including a \$60 million credit facility in the U.S. that expires in fiscal 2000. These lines of credit were substantially unused at October 30, 1999.

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

QUALITATIVE AND QUANTITATIVE DISCLOSURE ABOUT MARKET RISK

The Company has fixed rate debt obligations and related interest rate swap and cap agreements. An increase in interest rates would not significantly increase interest expense due to the fixed nature of the Company's debt obligations. Because of the size and structure of these obligations, a 100 basis point increase in interest rates would not result in a material change in the Company's interest expense or the fair value of the debt obligations and related interest rate swap and cap agreements for fiscal 1999 and fiscal 1998. The fair value of the Company's investment portfolio or related interest income would not be significantly impacted by either a 100 basis point increase or decrease in interest rates in fiscal 1999 and fiscal 1998, due mainly to the short-term nature of the major portion of the Company's investment portfolio and the relative insignificance of interest income to the consolidated pre-tax income, respectively.

As more fully described in Note 2 (h) in the Notes to the Company's Consolidated Financial Statements, the Company regularly hedges its non-U.S. dollar-based exposures by entering into forward exchange contracts, foreign

currency option contracts and currency swap agreements. The terms of these contracts typically are for periods matching the duration of the underlying exposure and generally range from three months up to one year. The short-term nature of these contracts has resulted in these instruments having insignificant fair values at October 30, 1999 and October 31, 1998. The Company's largest foreign currency exposure is against the Japanese yen, primarily because Japan has a higher proportion of local currency denominated sales. Relative to foreign currency exposures existing at October 30, 1999 and October 31, 1998, a 10% unfavorable movement in foreign exchange rates would not expose the Company to significant losses in earnings or cash flows or significantly diminish the fair value of its foreign currency financial instruments, primarily due to the short lives of the affected financial instruments that effectively hedge substantially all of the Company's year-end exposures against fluctuations in foreign currency exchange rates. The calculation assumes that each exchange rate would change in the same direction relative to the U.S. dollar. In addition to the direct effects of changes in exchange rates, such changes typically affect the volume of sales or the foreign currency sales price as competitors' products become more or less attractive. The Company's sensitivity analysis of the effects of changes in foreign currency exchange rates does not factor in a potential change in sales levels or local currency selling prices.

LITIGATION

For information concerning certain pending litigation involving the Company, see Note 11 of the Notes to the Company's Consolidated Financial Statements.

FORWARD-LOOKING STATEMENTS

The "Management Analysis" and other sections of this report contain forward-looking statements that are based on current expectations, estimates, forecasts and projections about the industry and markets in which the Company operates, management's beliefs and assumptions made by management. In addition, other written or oral statements that constitute forward-looking statements may be made by or on behalf of the Company. Words such as "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates," variations of such words and similar expressions are intended to identify such forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and

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assumptions that are difficult to predict. (See “Factors That May Affect Future Results” below.) Therefore, actual outcomes and results may differ materially from what is expressed or forecast in such forward-looking statements. The Company undertakes no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

FACTORS THAT MAY AFFECT FUTURE RESULTS

The Company's future operating results are difficult to predict and may be affected by a number of factors including the timing of new product announcements or introductions by the Company and its competitors, competitive pricing pressures, fluctuations in manufacturing yields, adequate availability of wafers and manufacturing capacity, changes in product mix and economic conditions in the United States and international markets. In addition, the semiconductor market has historically been cyclical and subject to significant economic downturns at various times. The Company's business is subject to rapid technological changes and there can be no assurance, depending on the mix of future business, that products stocked in inventory will not be rendered obsolete before they are shipped by the Company. As a result of these and other factors, there can be no assurance that the Company will not experience material fluctuations in future operating results on a quarterly or annual basis.

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

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

The cyclical nature of the industry has resulted in sustained or short-term periods when demand for the Company's products has increased or decreased rapidly. The semiconductor industry and the Company have experienced a period of rapid increases in demand during fiscal 1999. The Company has increased its manufacturing capacity over the past three years through both expansion of its production facilities and increased access to third-party foundries. However, the Company cannot be sure that it will not encounter unanticipated production problems at either its own facilities or at third-party foundries, or that the increased capacity will be sufficient to satisfy demand for its products. The Company relies, and plans to continue to rely, on assembly and test subcontractors and on third-party wafer fabricators to supply most of its wafers that can be manufactured using industry-standard digital processes. Such reliance involves several risks, including reduced control over delivery schedules, manufacturing yields and costs. In addition, the Company's capacity additions resulted in a significant increase in operating expenses. If revenue levels are not sufficient to offset these additional expense levels, the Company's future operating results could be adversely affected. In addition, asset values could be impaired if the additional capacity is underutilized for an extended period of time. Also, noncompliance with “take or pay” covenants in certain of its supply agreements could adversely impact operating results. The Company believes that other semiconductor manufacturers have expanded their production capacity over the past several years, and there can be no assurance that the expansion by the Company and its competitors will not lead to overcapacity in the Company's target markets, which could lead to price erosion that would adversely affect the Company's operating

MANAGEMENT ANALYSIS

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

In fiscal 1999, 54% of the Company's revenues were derived from customers in international markets. The Company has manufacturing facilities outside the U.S. in Ireland, the Philippines and Taiwan. The Company also has a supply agreement that includes "take or pay" covenants with a supplier located in Southeast Asia (SEA) and as part of this arrangement, the Company has \$20 million on deposit as well as a \$27 million investment in the common stock of the supplier. In addition to being exposed to the ongoing economic cycles in the semiconductor industry, the Company is also subject to the economic and political risks inherent in international operations, including the risks associated with the ongoing uncertainties in many developing economies around the world. These risks include air transportation disruptions, expropriation, currency controls and changes in currency exchange rates, tax and tariff rates and freight rates. Although the Company engages in certain hedging transactions to reduce its exposure to currency exchange rate fluctuations, there can be no assurance that the Company's competitive position will not be adversely affected by changes in the exchange rate of the U.S. dollar against other currencies.

The semiconductor industry is characterized by frequent claims and litigation involving patent and other intellectual property rights. The Company has from time to time received, and may in the future receive, claims from third parties asserting that the Company's products or processes infringe their patents or other intellectual property rights. In the event a third party makes a valid intellectual property claim and a license is not available on commercially reasonable terms, the Company's operating results could be materially and adversely affected. Litigation may be necessary to enforce patents or other intellectual property rights of the Company or to defend the Company against claims of infringement, and such litigation can be costly and divert the attention of key personnel. See Note 11 of the Notes to the Company's

Consolidated Financial Statements for information concerning certain pending litigation involving the Company. An adverse outcome in such litigation may, in certain cases, have a material adverse effect on the Company's consolidated financial position or on its consolidated results of operations or cash flows in the period in which the litigation is resolved.

The Company's software applications have been updated to accommodate the new Euro currency. System testing was completed during the fourth quarter of calendar 1998 and the Euro functionality was implemented as planned on January 1, 1999. No major system-related issues were encountered and none are anticipated. The impact, either positive or negative, of the Euro on the European economy generally and on the Company's operations in Europe in the future is unknown at this time.

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

YEAR 2000

Over the past six years the Company made significant investments in new manufacturing, financial and operating hardware and software. These investments were made to support the growth of its operations; however, the by-product of this effort was that the Company had year 2000 compliant hardware and software running on many of its major platforms. The Company established a task force to evaluate the remaining systems and equipment and upgrade or replace systems that were not year 2000 compliant. The cost of this effort, which commenced at the beginning of fiscal 1998 and continued through fiscal 1999, was approximately \$10 million.

The Company's computer systems and equipment successfully transitioned to the year 2000. However, there may be latent problems that surface at key dates or events in the future. The Company has not experienced, and does not anticipate, any significant problems related to the transition to the year 2000. Furthermore, the Company does not anticipate any significant expenditure in the future related to year 2000 compliance.

ANALOG DEVICES, INC.
CONSOLIDATED STATEMENTS OF INCOME

Years ended October 30, 1999, October 31, 1998 and November 1, 1997

(thousands except per share amounts)

		1999	1998	1997
Revenue	Net sales	\$ 1,450,379	\$ 1,230,571	\$ 1,243,494
Costs and Expenses	Cost of sales	<u>735,643</u>	<u>642,085</u>	<u>622,531</u>
	Gross margin	714,736	588,486	620,963
	Operating expenses:			
	Research and development	257,039	219,354	196,148
	Write-off of purchased in-process research and development	5,140	-	-
	Selling, marketing, general and administrative	209,639	207,487	191,613
	Restructuring charge	-	17,000	-
	Gain on sale of business	<u>-</u>	<u>(13,100)</u>	<u>-</u>
		471,818	430,741	387,761
	Operating income	242,918	157,745	233,202
	Equity in loss (income) of WaferTech	1,149	9,780	(214)
	Nonoperating (income) expenses:			
	Interest expense	8,071	11,229	12,507
	Interest income	(26,726)	(16,838)	(16,178)
	Other	<u>2,884</u>	<u>3,115</u>	<u>1,208</u>
		<u>(15,771)</u>	<u>(2,494)</u>	<u>(2,463)</u>
Earnings	Income before income taxes	257,540	150,459	235,879
	Provision for income taxes:			
	Payable currently	44,139	43,343	63,794
	Deferred	<u>16,582</u>	<u>(12,372)</u>	<u>(6,134)</u>
		60,721	30,971	57,660
	Net income before cumulative effect of change in accounting principle	<u>196,819</u>	<u>119,488</u>	<u>178,219</u>
	Cumulative effect of change in accounting principle, net of \$20 million of income taxes	<u>-</u>	<u>(37,080)</u>	<u>-</u>
	Net income after cumulative effect of change in accounting principle	<u>\$ 196,819</u>	<u>\$ 82,408</u>	<u>\$ 178,219</u>
	Shares used to compute earnings per share—Basic	<u>168,241</u>	<u>161,574</u>	<u>159,594</u>
	Shares used to compute earnings per share—Diluted	<u>181,452</u>	<u>177,875</u>	<u>177,309</u>
	Earnings per share before cumulative effect of change in accounting principle			
	Earnings per share—Basic	<u>\$1.16</u>	<u>\$0.74</u>	<u>\$1.13</u>
	Earnings per share—Diluted	<u>\$1.10</u>	<u>\$0.71</u>	<u>\$1.04</u>
	Earnings per share after cumulative effect of change in accounting principle			
	Earnings per share—Basic	<u>\$1.16</u>	<u>\$0.51</u>	<u>\$1.13</u>
	Earnings per share—Diluted	<u>\$1.10</u>	<u>\$0.50</u>	<u>\$1.04</u>

See accompanying notes.

ANALOG DEVICES, INC.

CONSOLIDATED BALANCE SHEETS

October 30, 1999 and October 31, 1998
(thousands except share amounts)

		1999	1998
Assets			
Current Assets	Cash and cash equivalents	\$ 355,891	\$ 263,331
	Short-term investments	406,553	41,575
	Accounts receivable less allowances of \$14,238 (\$32,332 in 1998).....	267,127	207,361
	Inventories	248,936	275,076
	Deferred tax assets	89,780	98,148
	Prepaid expenses and other current assets	10,823	18,038
	Total current assets	<u>1,379,110</u>	<u>903,529</u>
Property, Plant and Equipment, at Cost	Land and buildings	166,130	158,792
	Machinery and equipment.....	1,088,939	1,034,619
	Office equipment	74,530	70,576
	Leasehold improvements	108,530	103,482
		1,438,129	1,367,469
	Less accumulated depreciation and amortization.....	<u>795,323</u>	<u>664,038</u>
	Net property, plant and equipment.....	<u>642,806</u>	<u>703,431</u>
Other Assets	Investments	119,301	187,224
	Intangible assets, net	30,563	15,815
	Other assets.....	46,574	51,731
	Total other assets	<u>196,438</u>	<u>254,770</u>
		<u>\$2,218,354</u>	<u>\$1,861,730</u>
Liabilities and Stockholders' Equity			
Current Liabilities	Short-term borrowings and current portion of long-term debt.....	\$ 82,344	\$ 193
	Obligations under capital leases.....	14,717	14,266
	Accounts payable	103,368	59,115
	Deferred income on shipments to distributors	100,788	113,784
	Income taxes payable	66,761	53,595
	Accrued liabilities	111,285	79,906
	Total current liabilities.....	<u>479,263</u>	<u>320,859</u>
Noncurrent Liabilities	Long-term debt	-	309,985
	Noncurrent obligations under capital leases	16,214	30,773
	Deferred income taxes	40,002	31,789
	Other noncurrent liabilities	66,844	39,935
	Total noncurrent liabilities.....	<u>123,060</u>	<u>412,482</u>
Commitments and Contingencies			
Stockholders' Equity	Preferred stock, \$1.00 par value, 471,934 shares authorized, none outstanding	-	-
	Common stock, \$0.16 2/3 par value, 600,000,000 shares authorized, 178,049,189 shares issued (164,092,719 in 1998).....	29,675	27,349
	Capital in excess of par value, net of deferred compensation of \$6,211 (\$9,291 in 1998)	523,106	248,970
	Retained earnings.....	1,110,811	913,992
	Accumulated other comprehensive income	12,209	6,025
		<u>1,675,801</u>	<u>1,196,336</u>
	Less 3,161,774 shares in treasury, at cost (3,782,763 in 1998).....	<u>59,770</u>	<u>67,947</u>
	Total stockholders' equity.....	<u>1,616,031</u>	<u>1,128,389</u>
		<u>\$2,218,354</u>	<u>\$1,861,730</u>

See accompanying notes.

ANALOG DEVICES, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

<i>Years ended October 30, 1999, October 31, 1998 and November 1, 1997 (thousands)</i>		<u>Common Stock</u>		Capital in	Retained	Accumulated Other Comprehensive	<u>Treasury Stock</u>	
		Shares	Amount	Excess of Par Value	Earnings	Income*	Shares	Amount
	Balance, November 2, 1996	158,745	\$ 26,458	\$176,357	\$653,365	\$ 6,655	-	\$ -
Activity	Net income — 1997				178,219			
in Fiscal	Issuance of stock under							
1997	stock plans and other, net of repurchases	3,196	533	19,446			(35)	(1,054)
	Compensation recognized under Restricted Stock Plan			2,309				
	Tax benefit on exercise of non- qualified stock options and disqualifying dispositions under stock plans			25,773				
	Translation adjustment					69		
	Balance, November 1, 1997	161,941	26,991	223,885	831,584	6,724	(35)	(1,054)
Activity	Net income — 1998				82,408			
in Fiscal	Issuance of stock under							
1998	stock plans and other, net of repurchases	2,152	358	8,738			652	17,299
	Compensation recognized under Restricted Stock Plan			2,918				
	Tax benefit on exercise of non- qualified stock options and disqualifying dispositions under stock plans			13,429				
	Repurchase of common stock						(4,400)	(84,192)
	Translation adjustment					(699)		
	Balance, October 31, 1998	164,093	27,349	248,970	913,992	6,025	(3,783)	(67,947)
Activity	Net income — 1999				196,819			
in Fiscal	Issuance of stock under							
1999	stock plans and other, net of repurchases	2,974	496	28,159			621	8,177
	Conversion of 3½% Subordinated notes	10,982	1,830	228,074				
	Compensation recognized under Restricted Stock Plan			2,799				
	Tax benefit on exercise of non- qualified stock options and disqualifying dispositions under stock plans			15,104				
	Securities valuation adjustment					6,629		
	Translation adjustment					(445)		
	Balance, October 30, 1999	178,049	\$ 29,675	\$523,106	\$1,110,811	\$ 12,209	(3,162)	\$ (59,770)

*Comprehensive income, i.e., net income plus other comprehensive income, totaled \$203 million in 1999, \$82 million in 1998 and \$178 million in 1997.

See accompanying notes.

ANALOG DEVICES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended October 30, 1999, October 31, 1998 and November 1, 1997

<i>(thousands)</i>	1999	1998	1997
Operations			
Cash flows from operations:			
Net income	\$ 196,819	\$ 82,408	\$ 178,219
Adjustments to reconcile net income to net cash provided by operations:			
Cumulative effect of change in accounting principle, net of \$20 million of income taxes	-	37,080	-
Depreciation and amortization	142,598	127,560	103,554
Noncash portion of restructuring costs	-	10,000	-
Gain on sale of business	-	(13,100)	-
Write-off of purchased in-process research and development	5,140	-	-
Equity in loss of WaferTech, net of dividends	1,149	10,907	211
Deferred income taxes	16,582	(12,372)	(6,134)
Change in operating assets and liabilities:			
(Increase) decrease in accounts receivable	(59,019)	51,061	(25,129)
Decrease (increase) in inventories	28,424	(48,883)	(7,739)
Decrease (increase) in prepaid expenses and other current assets	7,331	240	(3,605)
Increase in investments—trading	(28,098)	(7,319)	(8,965)
Increase (decrease) in accounts payable, deferred income and accrued liabilities	57,096	(31,840)	4,828
Increase in income taxes payable	27,774	14,476	32,916
Increase in other liabilities	31,525	4,467	17,584
Total adjustments	<u>230,502</u>	<u>142,277</u>	<u>107,521</u>
Net cash provided by operations	<u>427,321</u>	<u>224,685</u>	<u>285,740</u>
Investments			
Cash flows from investments:			
Additions to property, plant and equipment, net	(77,500)	(166,911)	(179,374)
Purchase of short-term investments available-for-sale	(628,823)	(143,449)	(153,269)
Maturities of short-term investments available-for-sale	263,845	152,880	192,073
Change in long-term investments	101,501	(56,110)	(51,599)
Payments for acquisitions, net of cash acquired	(20,499)	-	-
Proceeds from sale of business	-	27,000	-
Decrease (increase) in other assets	3,435	(370)	(33,650)
Net cash used for investments	<u>(358,041)</u>	<u>(186,960)</u>	<u>(225,819)</u>
Financing Activities			
Cash flows from financing activities:			
Repurchase of common stock	-	(84,192)	-
Proceeds from employee stock plans	34,154	27,638	19,283
Payments on capital lease obligations	(14,109)	(11,640)	(11,164)
Proceeds from equipment financing	-	6,094	7,123
Net increase (decrease) in variable rate borrowings	1,776	60	(109)
Net cash provided by (used for) financing activities	<u>21,821</u>	<u>(62,040)</u>	<u>15,133</u>
Effect of exchange rate changes on cash	1,459	(1,955)	4,438
Net increase (decrease) in cash and cash equivalents	92,560	(26,270)	79,492
Cash and cash equivalents at beginning of year	<u>263,331</u>	<u>289,601</u>	<u>210,109</u>
Cash and cash equivalents at end of year	<u>\$ 355,891</u>	<u>\$ 263,331</u>	<u>\$ 289,601</u>
Supplemental Information			
Cash paid during the year for:			
Income taxes	<u>\$ 19,582</u>	<u>\$ 23,582</u>	<u>\$ 27,621</u>
Interest	<u>\$ 10,808</u>	<u>\$ 15,535</u>	<u>\$ 16,158</u>

See accompanying notes.

ANALOG DEVICES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended October 30, 1999, October 31, 1998 and November 1, 1997
(all tabular amounts in thousands except per share amounts)

1. Description of Business

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

As of the end of fiscal 1999, approximately 40% of Analog's revenues came from the communications market, making it the Company's largest and fastest-growing served market. Communications applications include wireless handsets and base stations, as well as products used for high-speed access to the Internet, including ICs used in ADSL and cable modems and central office networking equipment.

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

2. Summary of Significant Accounting Policies

a. Principles of Consolidation

The consolidated financial statements include the accounts of the Company and all of its wholly owned subsidiaries. Upon consolidation, all significant intercompany accounts and transactions are eliminated. The Company's fiscal year ends on the Saturday closest to the last day in October. Fiscal years 1999, 1998 and 1997 were each 52-week years.

Certain amounts reported in previous years have been reclassified to conform to the 1999 presentation, such reclassifications were immaterial.

b. Cash, Cash Equivalents and Investments

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

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

ANALOG DEVICES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Cash equivalents and short-term investments classified as available-for-sale were \$707 million and \$241 million at October 30, 1999 and October 31, 1998, respectively and those classified as held-to-maturity were \$28 million and \$42 million at October 30, 1999 and October 31, 1998, respectively. All of these securities have contractual maturities of twelve months or less at time of acquisition. Because of the short term to maturity, and hence relative price insensitivity to changes in market interest rates, amortized cost approximates fair value for all of these securities. As such, no realized or unrealized gains or losses were recorded during each of these years.

Long-term investments classified as trading were \$59 million and \$30 million at October 30, 1999 and October 31, 1998, respectively and were based on published market quotes on October 29, 1999 and October 30, 1998. Gross realized and unrealized gains and losses from trading securities were not material in fiscal 1999, fiscal 1998 and fiscal 1997. There was approximately \$27 million and \$0 at October 30, 1999 and October 31, 1998, respectively, of long-term investments classified as available-for-sale. Gross unrealized gains were not material in fiscal 1999 and fiscal 1998. There were no long-term investments classified as held-to-maturity at October 30, 1999 and October 31, 1998.

c. Additional Cash Flow Statement Information

The Company's non-cash financing activities consisted solely of the conversion of its 3½% Convertible Subordinated Notes into common stock as described in Note 9.

d. Inventories

Inventories are valued at the lower of cost (first-in, first-out method) or market. Inventories at October 30, 1999 and October 31, 1998 were as follows:

	1999	1998
Raw materials	\$ 13,735	\$ 25,624
Work in process	150,427	142,139
Finished goods	84,774	107,313
Total inventories	\$ 248,936	\$ 275,076

e. Property, Plant and Equipment

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

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

Total depreciation and amortization of property, plant and equipment was \$138,530,000, \$124,735,000 and \$101,432,000 in fiscal 1999, 1998 and 1997, respectively. Property, plant and equipment included \$75,034,000 and \$75,006,000 of capitalized leases in 1999 and 1998, net of \$35,588,000 and \$23,679,000 respectively, of accumulated depreciation.

ANALOG DEVICES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

f. Grant Accounting

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

g. Translation of Foreign Currencies

The functional currency for the Company's foreign sales operations is the applicable local currency. Gains and losses resulting from translation of these foreign currencies into U.S. dollars are accumulated in a separate component of stockholders' equity. Transaction gains and losses are included in income currently, including those at the Company's principal foreign manufacturing operations where the functional currency is the U.S. dollar. Foreign currency transaction gains or losses included in other expenses, net, were not material in fiscal 1999, 1998 and 1997.

h. Foreign Currency Instruments and Interest Rate Agreements

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

Forward foreign exchange contracts are utilized to manage the risk associated with currency fluctuations on certain firm sales and purchase commitments denominated in foreign currencies and certain non-U.S. dollar denominated asset and liability positions. The Company's forward foreign exchange contracts are primarily denominated in Japanese yen and certain European currencies and are for periods consistent with the terms of the underlying transactions, generally one year or less. The forward foreign exchange contracts that relate to firm, foreign currency sales and purchase commitments are designated and effective as hedges of firm, identifiable foreign currency commitments, and accordingly, the gains and losses resulting from the impact of currency exchange rate movements on these contracts are not recognized in operations until the underlying hedged transactions are recognized. Upon recognition, such gains and losses are recorded in operations as an adjustment to the carrying amount of the underlying transactions in the period in which these transactions are recognized. Unrealized gains and losses resulting from the impact of currency exchange rate movements on forward foreign exchange contracts designated to offset certain non-U.S. dollar denominated assets and liabilities are recognized as other income or expense in the period in which the exchange rates change and offset the foreign currency gains and losses on the underlying exposures being hedged. The contract amounts of forward foreign exchange contracts outstanding were \$178 million and \$140 million at October 30, 1999 and October 31, 1998, respectively.

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

ANALOG DEVICES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

\$26 million, at October 30, 1999 and October 31, 1998, respectively. Deferred gains or losses attributable to foreign currency option contracts were not material at October 30, 1999 and October 31, 1998.

The Company uses currency swap agreements to hedge the value of its net investment in certain of its foreign subsidiaries. Realized and unrealized gains and losses on such agreements related to the net foreign investment being hedged are recognized in the cumulative translation adjustment component of stockholders' equity, with the related amounts due to or from counterparties included in accrued liabilities or other current assets. The contract amount of currency swap agreements outstanding, which were principally denominated in Japanese yen, was \$10 million at October 30, 1999 and October 31, 1998. The currency swap agreement outstanding at October 30, 1999 has a remaining maturity of 4 months and is expected to remain in effect until expiration.

The Company enters into interest rate swap and cap agreements to manage its exposure to interest rate movements by effectively converting a portion of its debt and certain financing arrangements from fixed to variable rates. Maturity dates of interest rate swap and cap agreements generally match those of the underlying debt or financing arrangements. These agreements, which have maturities of up to eight years, involve the exchange of fixed rate payments for variable rate payments without the exchange of the underlying principal amounts. Variable rates are based on six-month U.S. dollar LIBOR and are reset on a semiannual basis. The differential between fixed and variable rates to be paid or received is accrued as interest rates change in accordance with the agreements and recognized over the life of the agreements as an adjustment to interest expense. The notional principal amounts of interest rate swap and cap agreements outstanding were approximately \$50 million at October 30, 1999 and October 31, 1998.

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

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

i. Fair Values of Financial Instruments

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

ANALOG DEVICES, INC.
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	October 30, 1999		October 31, 1998	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets:				
Cash and cash equivalents	\$ 355,891	\$ 355,891	\$ 263,331	\$ 263,331
Short-term investments	406,553	406,553	41,575	41,575
Long-term investments	85,999	85,999	30,488	30,488
Liabilities:				
Short-term borrowings	(2,344)	(2,344)	(193)	(193)
Long-term debt, including current portion	(80,000)	(79,978)	(309,985)	(328,290)
Foreign Currency Instruments and Interest Rate Agreements:				
Interest rate swap and cap agreements	13	(36)	14	1,201
Forward foreign currency exchange contracts	(4,260)	(7,658)	(3,045)	(1,575)
Foreign currency option contracts	340	220	479	211
Currency swap agreements	375	325	1,325	1,324

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

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

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

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

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

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

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

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

j. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Such estimates relate to the useful lives of fixed assets, allowances for doubtful accounts and customer returns, inventory reserves, potential reserves relating to litigation matters, accrued liabilities and other reserves. Actual results could differ from those estimates, and such differences may be material to the financial statements.

ANALOG DEVICES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

k. Concentrations of Credit Risk

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

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

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

l. Concentration of Other Risks

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

m. Revenue Recognition

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

n. Comprehensive Income

In the first quarter of fiscal 1999 the Company adopted Statement of Financial Accounting Standards No. 130, (FAS 130), "Reporting Comprehensive Income." FAS 130 establishes new rules for the reporting and display of comprehensive income and its components. Components of comprehensive income include net income and certain transactions that have generally been reported in the consolidated statement of shareholders' equity. Other comprehensive income is comprised of net income, currency translation adjustments and available-for-sale securities valuation adjustments.

o. Income Taxes

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

p. Stock-Based Compensation

The Company grants stock options for a fixed number of shares to employees with an exercise price equal to the fair value of the shares at the date of grant. The Company accounts for stock option grants in accordance with APB Opinion No. 25, "Accounting for Stock Issued to Employees" and accordingly, recognizes no compensation expense for the stock option grants.

q. Earnings Per Share of Common Stock

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

	1999	1998	1997
Basic:			
Income before cumulative effect of change in accounting principle	\$ 196,819	\$ 119,488	\$ 178,219
Cumulative effect of change in accounting principle	<u>-</u>	<u>(37,080)</u>	<u>-</u>
Net income	<u>196,819</u>	<u>82,408</u>	<u>178,219</u>
Weighted shares outstanding	<u>168,241</u>	<u>161,574</u>	<u>159,594</u>
Earnings per share:			
Income before cumulative effect of change in accounting principle	\$1.16	\$0.74	\$1.13
Cumulative effect of change in accounting principle	<u>-</u>	<u>(0.23)</u>	<u>-</u>
Net income	<u>\$1.16</u>	<u>\$0.51</u>	<u>\$1.13</u>
Diluted:			
Income before cumulative effect of change in accounting principle	\$ 196,819	\$ 119,488	\$ 178,219
Interest related to convertible subordinated notes, net of tax	<u>1,906</u>	<u>5,686</u>	<u>5,700</u>
Income before cumulative effect of change in accounting principle including the effect of dilutive securities	<u>198,725</u>	<u>125,174</u>	<u>183,919</u>
Cumulative effect of change in accounting principle	<u>-</u>	<u>(37,080)</u>	<u>-</u>
Net income	<u>\$ 198,725</u>	<u>\$ 88,094</u>	<u>\$ 183,919</u>
Weighted shares outstanding	168,241	161,574	159,594
Assumed exercise of common stock equivalents	9,411	5,317	6,730
Assumed conversion of subordinated notes	<u>3,800</u>	<u>10,984</u>	<u>10,985</u>
Weighted average common and common equivalent shares	<u>181,452</u>	<u>177,875</u>	<u>177,309</u>
Earnings per share:			
Income before cumulative effect of change in accounting principle	\$1.10	\$0.71	\$1.04
Cumulative effect of change in accounting principle	<u>-</u>	<u>(0.21)</u>	<u>-</u>
Net income	<u>\$1.10</u>	<u>\$0.50</u>	<u>\$1.04</u>

ANALOG DEVICES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

r. New Accounting Standards

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, (FAS 133), "Accounting for Derivative Instruments and Hedging Activities," which required adoption in periods beginning after June 15, 1999. FAS 133 was subsequently amended by Statement of Financial Accounting Standards No. 137, "Accounting for Derivative Instruments and Hedging Activities—Deferral of the Effective Date of FASB Statement No. 133" and will now be effective for fiscal years beginning after June 15, 2000, with earlier adoption permitted. The Company will adopt FAS 133 on a cumulative basis during fiscal 2001, as required. The Company is currently evaluating the effect of adopting FAS 133 and has not determined the impact of FAS 133 on its financial statements. In March 1998, Statement of Position 98-1, (SOP 98-1), "Accounting for the Cost of Computer Software Developed for or Obtained for Internal Use" was issued. The Company will adopt SOP 98-1 in fiscal 2000. The Company does not expect SOP 98-1 to have a material impact on the results of operations or financial position. In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin 101, (SAB 101), "Revenue Recognition in Financial Statements." SAB 101 summarizes the application of generally accepted accounting principles to revenue recognition in financial statements. The Company will adopt SAB 101 in the second quarter of fiscal 2000 and does not expect SAB 101 to have a material effect on its financial position or results of operations.

3. Acquisitions and Dispositions

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

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

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

4. Industry and Geographic Segment Information

The Company adopted Statement of Financial Accounting Standards No. 131, (FAS 131), "Disclosures about Segments of an Enterprise and Related Information" in fiscal 1999. The Company operates in two segments: the design, manufacture and marketing of a broad range of integrated circuits, which comprises approximately 97% of the Company's revenue, and the design, manufacture and marketing of a range of assembled products, which accounts for the remaining 3% of the Company's revenue. Effectively, the Company operates in one reportable segment.

ANALOG DEVICES, INC.
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Geographic Information

The Company operates in three major geographic areas. The following geographic area data include trade sales based upon point of sale and long-lived assets based upon physical location. The predominant countries comprising European operations are England, France, Germany and Ireland. The predominant country comprising Asian operations is Japan. For segment reporting purposes, sales generated by North American operations include export sales of \$262.4 million in fiscal 1999, \$128.2 million in fiscal 1998 and \$147.6 million in fiscal 1997.

Geographic Segment Information		1999	1998	1997
Sales	North America, including export	\$ 929,971	\$ 748,283	\$ 711,252
	Europe.....	313,598	312,523	359,333
	Asia.....	206,810	169,765	172,909
	Total sales	<u>\$ 1,450,379</u>	<u>\$ 1,230,571</u>	<u>\$ 1,243,494</u>
Long-Lived Assets	North America	\$ 417,854	\$ 448,384	\$ 405,511
	Europe.....	178,361	187,921	195,685
	Asia.....	77,154	82,941	75,207
	Total long-lived assets	<u>\$ 673,369</u>	<u>\$ 719,246</u>	<u>\$ 676,403</u>

5. Accounting Change—Recognition of Revenue on Certain Sales to Distributors

In the fourth quarter of fiscal 1998, the Company changed its accounting method for recognizing revenue on all shipments to international distributors and certain shipments to domestic distributors. The change was made with an effective date of November 2, 1997 (the beginning of fiscal 1998). While the Company has historically deferred revenue on most shipments made to domestic distributors until the products were resold by the distributors to end users, it recognized revenue on shipments to international distributors and certain shipments to domestic distributors upon shipment to the distributors, net of appropriate reserves for returns and allowances. As a result of this accounting change, revenue recognition on shipments to distributors worldwide is deferred until the products are resold to the end users. The Company believes that deferral of revenue and related gross margin on shipments to distributors until the product is shipped by the distributors is a more meaningful measurement of results of operations because it better conforms to the substance of the transaction considering the changing business environment in the international marketplace; is consistent with industry practice; and will, accordingly, better focus the entire organization on sales to end users and, therefore, is a preferable method of accounting. The cumulative effect in 1998 of the change in accounting principle was a charge of approximately \$37 million (net of \$20 million of income taxes) or \$0.21 per diluted share. The estimated pro forma effect of the accounting change on the prior years' results is as follows:

	1998	1997
As reported:		
Net sales	\$1,230,571	\$1,243,494
Net income	82,408	178,219
Basic earnings per share	\$0.51	\$1.13
Diluted earnings per share	\$0.50	\$1.04
Pro forma amounts with the change in accounting principle related to revenue recognition applied retroactively: (unaudited)		
Net sales	\$1,230,571	\$1,214,602
Net income	119,488	167,515
Basic earnings per share	\$0.74	\$1.06
Diluted earnings per share	\$0.71	\$0.98

ANALOG DEVICES, INC.
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6. Restructuring Charge

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

7. Investments

Investments at October 30, 1999 and October 31, 1998 were as follows:

	1999	1998
WaferTech, LLC	\$ 32,852	\$ 135,002
CSM	27,413	20,784
Other	59,036	31,438
	\$ 119,301	\$ 187,224

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

The Company has an equity investment in Chartered Semiconductor Manufacturing Pte., Ltd., (CSM), in Singapore of approximately \$27 million which represents a less than 5% ownership interest. During fiscal 1999, CSM's stock became publicly traded. As a result, the Company changed the classification of its equity investment to available-for-sale. Previously, the investment was accounted for under the cost method.

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

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

8. Accrued Liabilities

Accrued liabilities at October 30, 1999 and October 31, 1998 consisted of the following:

	1999	1998
Accrued compensation and benefits	\$ 65,997	\$ 36,582
Other	45,288	43,324
Total accrued liabilities	\$ 111,285	\$ 79,906

ANALOG DEVICES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9. Debt and Credit Facilities

Long-term debt at October 30, 1999 and October 31, 1998 consisted of the following:

	1999	1998
3 1/2% Convertible Subordinated Notes due December 1, 2000	\$ -	\$ 229,985
6 5/8% Notes due March 1, 2000	80,000	80,000
Long-term debt	80,000	309,985
Less: Current portion long-term debt	(80,000)	-
Total	\$ -	\$ 309,985

As of March 11, 1999, the Company had converted \$229,967,000 of the \$230 million principal amount of its 3 1/2% Convertible Subordinated Notes (Notes) due 2000 into an aggregate of 10,983,163 shares of the Company's common stock, and the remaining Notes were redeemed by a cash payment of \$33,000. This conversion did not have an impact on diluted earnings per share.

Simultaneous with the sale of the 6 5/8% Notes, the Company entered into an interest rate swap and cap agreement for the term of the Notes having a notional principal amount of \$40 million whereby the effective net interest rate on \$40 million of the Notes will be the six-month LIBOR rate (up to a maximum of 7%) plus 1.4%. For the year ended October 30, 1999, the net effective interest rate on \$40 million of the Notes was 7.3% after giving effect to the interest rate swap agreement.

The Company has a revolving credit agreement with several banks that commits them to lend up to \$60 million. The Company did not borrow against this agreement at any time during fiscal 1999 or fiscal 1998. There was \$2.3 million and \$0.2 million of foreign currency borrowings outstanding at October 30, 1999 and October 31, 1998, respectively, which were at prevailing market rates for the respective currencies. Borrowings under the Company's credit agreement and lines of credit are generally due within six months.

10. Lease Commitments

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

Total rental expense under operating leases was approximately \$17 million in fiscal 1999, \$16 million in fiscal 1998 and \$13 million in fiscal 1997.

The following is a schedule of future minimum lease payments under capital leases and rental payments required under long-term operating leases at October 30, 1999:

Fiscal Years	Operating Leases	Capital Leases
2000	\$ 11,649	\$ 15,807
2001	8,402	8,903
2002	5,920	4,804
2003	3,027	3,607
2004	2,501	57
Later Years	13,994	-
Total	<u>\$ 45,493</u>	33,178
Less amount representing interest		(2,247)
Present value of minimum lease payments		<u>\$ 30,931</u>

ANALOG DEVICES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11. Commitments and Contingencies

Litigation

The Company was a defendant in a federal lawsuit brought in Arizona by the Lemelson Medical, Education & Research Foundation, L.P. (Lemelson). On July 31, 1998, Lemelson commenced an action in federal court against the Company and 26 other companies alleging infringement of 16 patents allegedly covering various manufacturing processes and techniques used in the fabrication of semiconductor products. Lemelson served the Company with a complaint on November 24, 1998 seeking unspecified damages, treble damages for willful infringement and injunctive relief. Subsequent to fiscal 1999, the Company entered into a settlement agreement with Lemelson that was not material.

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

Patent infringement suits are pending against the Company by Sextant Avionique, S.A. in France and the United States and Commissariat A. L'energie Atomique C.E.A. in France, claiming that the Company's accelerometer infringes certain patents. In the United States proceeding commenced by Sextant Avionique, S.A. on August 8, 1995, the federal district court entered judgment following trial in favor of the Company finding the Company did not infringe Sextant's patents. Sextant appealed the decision and the case was heard on appeal. The parties are awaiting the appellate court's determination. In the French proceeding commenced by Sextant Avionique, S.A., the French court found that the Company infringed Sextant's French patents, and therefore, unless the decision is reversed, the Company will be unable to manufacture or sell any infringing accelerometers in France. The Company does not believe that the French court's decision will have any material adverse effect on its consolidated financial position or consolidated results of operations.

On January 18, 2000, the Company became aware that Silicon Laboratories, Inc. had named ADI as a defendant in a lawsuit filed in the United States District Court for the Western District of Texas, which alleges misappropriation of trade secrets and patent infringement by Analog. As of January 21, 2000, the Company had not yet been served by the plaintiff and therefore has not had the opportunity to review the plaintiff's complaint. Accordingly, the Company is not in a position to assess the validity of the allegations or the effect of the lawsuit on the Company.

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

Wafer Supply Agreements

The Company maintains a deposit of \$20 million with Chartered Semiconductor Manufacturing Pte., Ltd., (CSM). This deposit is classified in the balance sheet line item "Other assets." Under the terms of this agreement, the deposit will guarantee access to certain quantities of sub-micron wafers through fiscal 2004. If the Company does not purchase the minimum quantities under the agreement, the deposit will be forfeited for the value of the wafer shortfall up to the total amount of \$20 million. The outstanding balance of the deposit is refunded in proportion to the Company's purchases of wafers from CSM, and at this time, the Company expects to have the entire deposit refunded.

ANALOG DEVICES, INC.
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12. Stockholders' Equity

Stock Plans

In fiscal 1998, the stockholders approved the 1998 Stock Option Plan, which provides for the issuance of nonstatutory and incentive stock options to purchase up to 15,000,000 shares of common stock. Officers, employees, directors, consultants and advisors of the Company and its subsidiaries are eligible to be granted options under this plan at a price not less than 100% (110% in the case of incentive stock options granted to 10% or greater stockholders) of the fair market value of the common stock at the time the option is granted. The Company's 1988 Stock Option Plan was terminated upon adoption of the 1998 Stock Option Plan; however, options to purchase common stock remain outstanding under the plan. There are no remaining options outstanding under the Company's 1980 Stock Option Plan.

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

Under the 1994 Director Option Plan, which was amended in 1998, each non-employee director is granted annually a non-statutory option to purchase 10,500 shares of common stock at an exercise price equal to the fair market value on the date of grant. Up to 1999, each newly elected non-employee director received a grant of an option to purchase 10,500 shares of Common Stock upon his or her election to the Board (the "Initial Grant"). The 1994 Director Plan was amended in 1999 whereby the number of shares of Common Stock underlying the Initial Grant was increased from 10,500 to 30,000. A total of 550,000 shares of common stock may be issued under this plan. These options are exercisable on a cumulative basis in annual installments of $33\frac{1}{3}\%$ each on the first, second and third anniversaries of the date of grant. The Company also has options outstanding under the 1992 Director Option Plan that are exercisable on a cumulative basis in annual installments of $33\frac{1}{3}\%$ each on the third, fourth and fifth anniversaries of the date of grant.

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

Stock Option Activity	Shares Available for Grant	Options Outstanding	
		Number	Weighted Average Price Per Share
Balance, November 2, 1996	10,767	15,578	\$ 8.87
Options granted	(4,081)	4,081	\$ 23.33
Options exercised	-	(2,432)	\$ 4.21
Options canceled	312	(322)	\$ 14.13
Balance, November 1, 1997	6,998	16,905	\$ 12.92
Shares authorized for 1998 Stock Option Plan	15,000	-	-
Additional shares authorized for 1994 Director Stock Option Plan	150	-	-
Shares authorized for Medialight acquisition	102	-	-
Options granted	(19,946)	19,946	\$ 16.73
Options exercised	-	(2,014)	\$ 6.35
Options canceled	9,128	(9,128)	\$ 23.15
Shares canceled upon termination of 1988 Stock Option Plan	(2,579)	-	-
Balance, October 31, 1998	8,853	25,709	\$ 12.78
Options granted	(660)	660	\$ 34.52
Options exercised	-	(3,027)	\$ 8.51
Options canceled	651	(651)	\$ 15.29
Balance, October 30, 1999	8,844	22,691	\$ 13.93

ANALOG DEVICES, INC.
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Option Amendment

In September 1998 the Board of Directors approved a stock option program amendment pursuant to which all employees with stock options granted during the period beginning December 1, 1996 and ending on August 3, 1998 could elect to reduce the option exercise price to \$14.75 per share (equal to the then fair market value). Upon such election, the vesting schedule for the affected options was reset, whereby one-third vest on September 8, 2001, one-third on September 8, 2002 and the final one-third on September 8, 2003. A total of 8,221,498 options with exercise prices ranging from \$22.25 to \$34.25 per share were amended under the program. The activity as a result of this option program amendment is presented in the preceding table as cancellations and subsequent grants.

The following table summarizes information about options outstanding at October 30, 1999:

Range of Exercise Price	Outstanding Options			Options Exercisable	
	Number Outstanding at 10/30/99	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable at 10/30/99	Weighted Average Exercise Price
\$ 1.96 - \$ 5.62	950	2.1	\$ 2.81	950	\$ 2.81
\$ 5.62 - \$ 11.24	3,515	4.8	\$ 9.11	2,414	\$ 8.59
\$ 11.24 - \$ 22.48	17,191	7.9	\$ 14.48	711	\$ 16.26
\$ 22.48 - \$ 39.33	842	8.3	\$ 26.41	76	\$ 25.95
\$ 39.33 - \$ 56.19	193	9.9	\$ 51.45	0	\$ 0
\$ 1.96 - \$ 56.19	22,691	7.2	\$ 13.93	4,151	\$ 8.90

The Company has an employee stock purchase plan (ESPP) that allows eligible employees to purchase, through payroll deductions, shares of the Company's common stock at 85% of the fair market value at specified dates. Employees purchased 656,400 shares in 1999 (602,500 and 579,200 in 1998 and 1997, respectively) for \$12.9 million (\$11.8 million and \$10.2 million in 1998 and 1997, respectively). At October 30, 1999, approximately 2,201,000 common shares remained available for issuance under the stock purchase plan.

Under the 1991 Restricted Stock Plan, a maximum of 2,700,000 shares of common stock was authorized for awards by the Company to key employees for nominal consideration. This plan succeeded the Company's 1978 Restricted Stock Plan that provided for the issuance of up to 7,372,800 shares of common stock. Shares awarded from both plans are restricted as to transfer, usually for a period of five years and, under certain conditions, may be subject to repurchase by the Company at the original purchase price per share. There were no additional shares awarded under the restricted stock plans in fiscal 1999. Shares awarded under the Company's restricted stock plans, net of cancellations, for fiscal 1998 and fiscal 1997 were 217,500 and 168,000, respectively. The fair market value of the shares at the date of award was \$6,293,000 and \$4,002,000 in fiscal 1998 and 1997, respectively and was accounted for as deferred compensation and is being amortized over the restricted period. During 1999, 1998 and 1997, \$2,799,000, \$2,918,000 and \$2,309,000, respectively, of such compensation was charged to expense. At October 30, 1999, there were 597,500 shares of common stock available for issuance under the 1991 Restricted Stock Plan.

As of October 30, 1999, a total of 34,332,881 common shares were reserved for issuance under the Company's stock plans.

Common Stock Repurchase

In May and October of 1998, the Board of Directors authorized the Company to repurchase up to 4 million and 8 million shares, respectively, of its common stock over the succeeding 12 months. At October 31, 1998 the Company had purchased 4,400,000 shares of its common stock an average purchase price of \$19.13 per share. The Company did not purchase any shares in fiscal 1999. The repurchased shares will be held as treasury shares and will be available for issuance under the Company's stock option plans, employee stock purchase plan and other benefit plans.

ANALOG DEVICES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Stock-Based Compensation

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

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

	Options			ESPP		
	1999	1998	1997	1999	1998	1997
Expected life (years)	6.1	6.1	6.2	1.0	1.0	1.0
Expected stock price volatility	52.9%	49.5%	47.7%	64.1%	57.6%	56.0%
Risk-free interest rate	5.3%	5.3%	6.2%	5.1%	5.4%	5.8%

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

	Weighted Average Grant Date Value		
	1999	1998	1997
Stock option plans	\$ 19.54	\$ 9.82	\$ 12.68
ESPP	\$ 8.79	\$ 8.33	\$ 9.53

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

	1999	1998	1997
Pro forma net income	\$162,872	\$56,719	\$170,173
Pro forma diluted earnings per share	\$0.90	\$0.32	\$0.97

The effects on pro forma disclosures of applying FAS 123 are not likely to be representative of the effects on pro forma disclosures of future years. Because FAS 123 is applicable only to options granted subsequent to October 28, 1995, the pro forma effect will not be fully reflected until fiscal 2000.

Preferred Stock

The Company has 471,934 authorized shares of \$1.00 par value Preferred Stock. The Board of Directors is authorized to fix designations, relative rights, preferences and limitations on the preferred stock at the time of issuance.

ANALOG DEVICES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Common Stock Purchase Rights

In March 1998, the Board of Directors adopted a Stockholder Rights Plan (the Stockholder Rights Plan) that replaced a plan adopted by the Board in 1988. Pursuant to the Stockholder Rights Plan, each share of the Company's Common Stock (Common Stock) has an associated right (the Rights). Under certain circumstances, each Right would entitle the registered holder to purchase from the Company one one-thousandth share of Series A Junior Participating Preferred Stock at a Purchase Price of \$180 in cash, subject to adjustment.

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

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

13. Retirement Plans

The Company and its subsidiaries have various savings and retirement plans covering substantially all employees. The Company maintains a defined contribution plan for the benefit of its eligible United States employees. This plan provides for Company contributions of up to 5% of each participant's total eligible compensation. In addition, the Company contributes an amount equal to each participant's contribution, if any, up to a maximum of 2% of each participant's total eligible compensation, plus 50% of the contributions between 2% and 4%. The Company also has various defined benefit pension and other retirement plans for certain foreign employees that are consistent with local statutes and practices. The total expense related to all of the Company's retirement plans was approximately \$21 million in fiscal years 1999 and 1998 and \$19 million in fiscal 1997, which primarily consisted of costs related to the U.S. defined contribution plan. Also included in total expense is pension expense related to foreign defined benefit plans of approximately \$3 million for each of the fiscal years 1999, 1998 and 1997.

ANALOG DEVICES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Non-U.S. Plan Disclosures

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

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

	1999	1998	1997
Service cost of benefits earned during the year	\$ 4,079	\$ 3,208	\$ 3,117
Interest cost on projected benefit obligation	3,273	3,246	3,295
Expected return on plan assets	(6,052)	(12,623)	(8,109)
Amortization of prior service cost	1,846	9,440	4,889
Net periodic pension cost	\$ 3,146	\$ 3,271	\$ 3,192

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

	1999	1998
Benefit Obligation:		
Beginning balance	\$ 56,485	\$ 52,648
Service cost	4,079	3,208
Interest cost	3,273	3,246
Plan participants' contributions	1,267	1,230
Benefits paid	(1,540)	(2,634)
Actuarial (gain)/loss	(7,939)	5,982
Exchange rate adjustment	(711)	(7,195)
Ending balance	\$ 54,914	\$ 56,485
Plan Assets at Fair Value:		
Beginning balance	\$ 58,784	\$ 50,951
Actual return on plan assets	6,052	12,623
Company contributions	2,646	2,277
Plan participants' contributions	1,267	1,230
Benefits paid	(1,540)	(2,634)
Exchange rate adjustment	(1,052)	(5,663)
Ending balance	\$ 66,157	\$ 58,784
Reconciliation of Funded Status:		
Fund status—Plan assets in excess of benefit obligation	\$ (11,243)	\$ (2,299)
Unrecognized net gain	15,148	6,543
Unrecognized prior service cost	(1,077)	(308)
Net amount recognized	\$ 2,828	\$ 3,936
Amounts recognized in the balance sheet consist of:		
Prepaid benefit cost	\$ (4,201)	\$ (2,678)
Accrued benefit cost	7,029	6,614
Total	\$ 2,828	\$ 3,936

Accrued benefit cost at October 30, 1999 and October 31, 1998 includes projected benefit obligations of \$14.8 million and \$12.7 million and accumulated benefit obligations of \$8.7 million and \$7.5 million, versus plan assets of \$6.4 million and \$4.7 million for four plans whose obligations exceeded their assets.

ANALOG DEVICES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	1999	1998
Discount rate	4% - 12%	4% - 12%
Rate of increase in compensation levels	4% - 10%	3% - 10%
Expected long-term returns on assets	5% - 12%	4% - 13%

14. Income Taxes

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

	1999	<u>Liability Method</u> 1998	1997
U.S. federal statutory tax rate	35.0%	35.0%	35.0%
Income tax provision reconciliation:			
Tax at statutory rate	\$ 90,139	\$ 52,660	\$ 82,578
Irish income subject to lower tax rate	(25,557)	(10,960)	(19,880)
Change in valuation allowance	-	(5,559)	(1,835)
State income taxes, net of federal benefit	260	502	964
Research and development tax credits	(2,700)	(4,400)	(5,000)
Foreign Sales Corporation	(4,923)	(1,745)	(3,161)
Amortization of goodwill	1,189	545	528
Net foreign tax in excess of U.S. federal statutory tax rate	(156)	125	2,765
Other, net	2,469	(197)	701
Total income tax provision	\$ 60,721	\$ 30,971	\$ 57,660

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

	1999	1998	1997
Pretax income:			
Domestic	\$ 114,333	\$ 34,290	\$ 84,599
Foreign	143,207	116,169	151,280
	\$ 257,540	\$ 150,459	\$ 235,879

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

	1999	1998	1997
Current:			
Federal	\$ 19,949	\$ 24,588	\$ 35,500
Foreign	23,790	17,983	26,811
State	400	772	1,483
Total current	\$ 44,139	\$ 43,343	\$ 63,794
Deferred (prepaid):			
Federal	\$ 16,262	\$ (7,792)	\$ (3,364)
Foreign	320	(4,580)	(2,770)
Total deferred (prepaid)	\$ 16,582	\$ (12,372)	\$ (6,134)

ANALOG DEVICES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Company's practice is to reinvest indefinitely the earnings of certain international subsidiaries. Accordingly, no U.S. income taxes have been provided for approximately \$588,048,000 of unremitted earnings of international subsidiaries.

The Company had recorded a valuation allowance to reflect the estimated amount of deferred tax assets that may not be realized due to the expiration of book and tax capital losses. The balance for the valuation allowance for deferred assets was \$0 at October 30, 1999 and October 31, 1998, and \$5.6 million at November 1, 1997.

The significant components of the Company's deferred tax assets and liabilities for the fiscal years ended October 30, 1999 and October 31, 1998 are as follows:

	1999	1998
Deferred tax assets:		
Inventory reserves	\$ 32,816	\$ 36,176
Deferred income on shipments to distributors	34,750	39,210
Reserves for compensation and benefits	12,769	11,968
Restricted stock	2,364	2,466
Intercompany profits in foreign inventories	5,181	5,066
Reserve for bad debts	2,821	5,694
Foreign tax credits	292	(492)
Other	3,253	4,340
Total gross deferred tax assets	94,246	104,428
Deferred tax liabilities:		
Depreciation	(44,468)	(38,069)
Total gross deferred tax liabilities	(44,468)	(38,069)
Net deferred tax assets	\$ 49,778	\$ 66,359

REPORT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

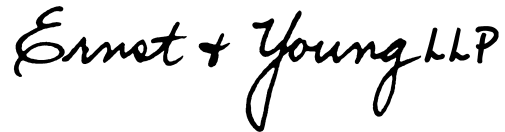
The Board of Directors and Stockholders
Analog Devices, Inc.

We have audited the accompanying consolidated balance sheets of Analog Devices, Inc. as of October 30, 1999 and October 31, 1998, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended October 30, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Analog Devices, Inc. at October 30, 1999 and October 31, 1998, and the consolidated results of its operations and its cash flows for each of the three years in the period ended October 30, 1999, in conformity with accounting principles generally accepted in the United States.

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

The signature is written in a cursive, handwritten style. It reads "Ernst & Young LLP". The "E" is large and loops around the "&". The "Y" is also large and loops around the "L". The "P" is smaller and ends with a short horizontal stroke.

Boston, Massachusetts
November 30, 1999

ANALOG DEVICES, INC.
SUPPLEMENTARY FINANCIAL INFORMATION (Unaudited)

Quarterly financial information for fiscal 1999 and fiscal 1998 (thousands of dollars except as noted):

	4Q99	3Q99	2Q99	1Q99	4Q98*	3Q98*	2Q98*	1Q98*
Net sales	431,036	378,776	340,067	300,500	297,650	295,700	319,430	317,791
Cost of sales	205,922	190,481	176,435	162,805	164,945	161,815	160,993	154,332
Gross margin	225,114	188,295	163,632	137,695	132,705	133,885	158,437	163,459
% of sales	52%	50%	48%	46%	45%	45%	50%	51%
Operating expenses:								
Research and development	75,414	67,142	61,899	52,584	53,101	55,088	56,190	54,975
Write-off of purchased in-process research and development	-	-	5,140	-	-	-	-	-
Selling, marketing, general and administrative	59,702	54,589	49,167	46,181	46,625	48,202	57,014	55,646
Restructuring charge	-	-	-	-	-	17,000	-	-
Gain on sale of business	-	-	-	-	-	-	(13,100)	-
Total operating expenses	135,116	121,731	116,206	98,765	99,726	120,290	100,104	110,621
% of sales	31%	32%	34%	33%	34%	41%	31%	35%
Operating income	89,998	66,564	47,426	38,930	32,979	13,595	58,333	52,838
% of sales	21%	18%	14%	13%	11%	5%	18%	17%
Equity in loss of WaferTech	-	-	-	1,149	2,715	3,560	1,915	1,590
Nonoperating expenses (income):								
Interest expense	1,354	1,044	1,985	3,688	3,031	2,666	3,103	2,429
Interest income	(9,428)	(6,881)	(6,117)	(4,300)	(4,543)	(3,996)	(4,318)	(3,981)
Other	441	557	854	1,032	798	536	996	785
Total nonoperating (income) expense	(7,633)	(5,280)	(3,278)	420	(714)	(794)	(219)	(767)
Income before income taxes	97,631	71,844	50,704	37,361	30,978	10,829	56,637	52,015
% of sales	23%	19%	15%	12%	10%	4%	18%	16%
Provision for income taxes	24,413	17,243	11,598	7,467	4,642	1,721	12,852	11,756
Net income before cumulative effect of change in accounting principle	73,218	54,601	39,106	29,894	26,336	9,108	43,785	40,259
% of sales	17%	14%	12%	10%	9%	3%	14%	13%
Per share—basic	.42	.32	.23	.19	.16	.05	.27	.26
Per share—diluted	.40	.30	.22	.18	.16	.06	.25	.24
Cumulative effect of change in accounting principle	-	-	-	-	-	-	-	(37,080)
Net income after cumulative effect of change in accounting principle	73,218	54,601	39,106	29,894	26,336	9,108	43,785	3,179
% of sales	17%	14%	12%	10%	9%	3%	14%	1%
Per share—basic	.42	.32	.23	.19	.16	.05	.27	.03
Per share—diluted	.40	.30	.22	.18	.16	.06	.25	.03
Shares used to compute earnings per share (in thousands)								
Basic	173,670	172,710	167,012	159,572	160,698	162,451	162,124	161,023
Diluted	184,774	183,480	180,698	176,857	175,382	178,546	179,427	178,146

*Fiscal 1998 results are after cumulative effect of accounting change—see Note 5 of the consolidated financial statements.

CORPORATE INFORMATION

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Massachusetts Institute of Technology,
Cambridge, MA
F. Grant Saviers, Retired Chairman of
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Lester C. Thurow, Professor of
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Massachusetts Institute of Technology,
Cambridge, MA

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Ross Brown, Vice President,
Human Resources
Samuel H. Fuller, Vice President,
Research and Development
Russell K. Johnsen, Vice President
and General Manager,
Communications Products Division
Rob Marshall, Vice President,
Worldwide Manufacturing
William A. Martin, Treasurer
Robert McAdam, Vice President
and General Manager, Standard
Linear Products Division
Brian McAloon, Vice President, Sales
Joseph E. McDonough, Vice President,
Finance, and Chief Financial Officer
Franklin A. Weigold, Vice President
and General Manager,
Micromachined Products Division
Paul P. Brountas, Clerk; Senior Partner,
Hale and Dorr LLP, Boston, MA

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	Scott Wurcer

GENERAL COUNSEL

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(781) 575-3120 (Outside U.S.A.),
www.equiserve.com

ANNUAL MEETING

Analog Devices will hold its Annual
Stockholders' Meeting at 10:00 a.m.,
Tuesday, March 14, 2000, at the Hilton
at Dedham Place, 95 Dedham Place,
Dedham, MA.

STOCK TRADING

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

SALES OFFICES

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

MANUFACTURING FACILITIES

Analog Devices operates manufactur-
ing facilities in Cambridge, Norwood,
and Wilmington, MA; Santa Clara
and Sunnyvale, CA; Greensboro, NC;
Ireland; the Philippines and Taiwan.

SHAREHOLDER INQUIRIES

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

OTHER INFORMATION

To obtain a free copy of the 1999
Form 10-K Report or additional
information, write to: Analog Devices,
Inc., James O. Fishbeck, Director
of Corporate Communications,
One Technology Way, PO Box 9106,
Norwood, MA 02062-9106, or visit
ADI's home page at www.analog.com.

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