
A N A L O G D E V I C E S , I N C .



2001 Summary Annual Report

CORPORATE PROFILE

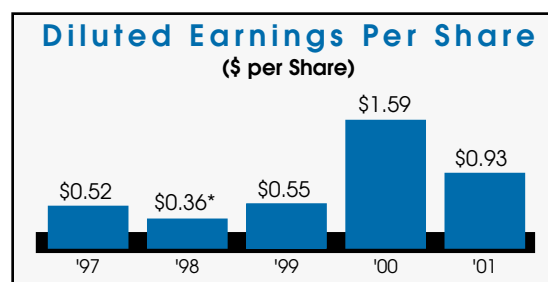
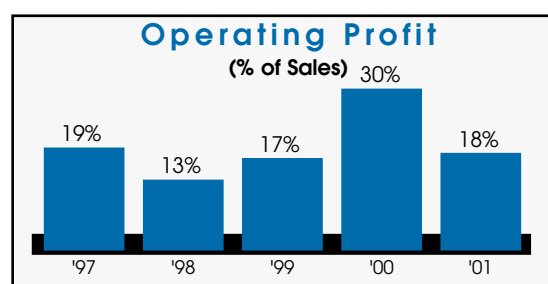
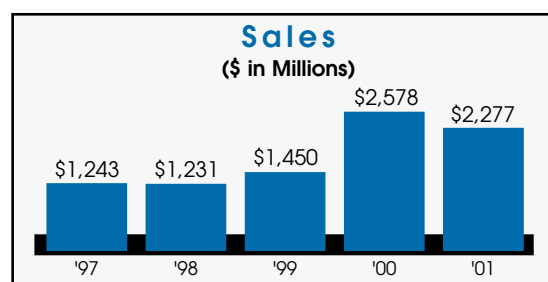
Analog Devices, Inc. is a world leader in the design, manufacture and marketing of high-performance analog, mixed-signal and digital signal processing (DSP) integrated circuits (ICs) used in signal processing applications.

ADI's products are sold to a wide diversity of customers in the communications, computer, consumer and industrial markets. During FY2001, approximately 40% of ADI's revenues were derived from the industrial market, 38% from the communications market and the remaining 22% from the computer and consumer markets.

ADI's products are sold to over 60,000 customers worldwide through a direct sales force, third-party industrial distributors and independent sales representatives. The Company has direct sales offices in 19 countries, including the United States. Approximately 39% of ADI's FY2001 revenues came from customers in North America, while most of the balance came from customers in Europe and Asia.

The Company is headquartered near Boston, in Norwood, Massachusetts, and has manufacturing facilities in Massachusetts, California, North Carolina, Ireland, the Philippines, Taiwan and the United Kingdom. Founded in 1965, ADI employs approximately 9,000 people worldwide. The Company's stock (NYSE: ADI) is included in the Standard & Poor's 500 Index.

RESULTS SINCE 1997



* Excludes cumulative effect of change in accounting principle.

This document contains forward-looking statements that are based on current expectations, estimates and projections about the industries in which ADI operates, management's beliefs and assumptions made by management. These statements are not guarantees of future performance and involve risks, uncertainties and assumptions. For a discussion of the factors that may affect ADI's future performance and results of operations, see "Forward-Looking Statements" and "Factors That May Affect Results" in our most recent Annual Report on Form 10-K.

DEAR SHAREHOLDERS:

Last year's annual report began by describing FY2000 as the best year in ADI's history by every measure. During FY2000, we achieved 78% growth, increasing revenues by over \$1 billion in a single year to \$2.6 billion, and reached a record 34% operating margin by the end of the year. We entered FY2001 with a substantial backlog and a plan for significant growth in both sales and profits throughout the year. The rest of the story is now history.

The semiconductor industry headed into a tailspin in early 2001, ultimately declining 35%, which is the single worst sequential decline in the history of the industry. While ADI's revenues declined 12% to \$2.3 billion, we outperformed the market and remained solidly profitable throughout the year.

It is important to review what caused this decline, what we at ADI have done to react, and, most importantly, why, despite a disappointing 2001, we believe that ADI remains better positioned than ever in our history to continue growing at industry-leading rates and earning substantial profits as sales increase.

WHAT HAPPENED IN 2001?

The year 2001 dispelled all theories that the semiconductor industry was no longer a cyclical business. Spending on ICs exploded during 2000, heavily buoyed by the dot-com mania, a robust capital market and the telecommunications build-out that was sparked by deregulation a few years earlier. Against a long-term secular growth rate of 17% per year, the semiconductor industry grew 33% in 2000, almost two times the average rate of the past 40 years. This explosive growth caused extended lead times and resulted in inevitable double and triple ordering. This particular cycle was exacerbated by a collapse in many end markets and a new inventory point at manufacturing subcontractors, which further masked real consumption. Just as semiconductor companies increased their manufacturing capacity to respond to the apparent demand, actual demand evaporated, lead times suddenly compressed, backlogs were cancelled and order rates plummeted. In a very short period, we went from customers complaining that we could not ship parts quickly enough, to customers, in some cases, requesting that we cancel all backlog. We entered

FY2001 with over \$1 billion in backlog. By year-end, our backlog had been reduced to \$200 million and we were shipping at half the rate of just one year ago.

HOW DID ADI REACT?

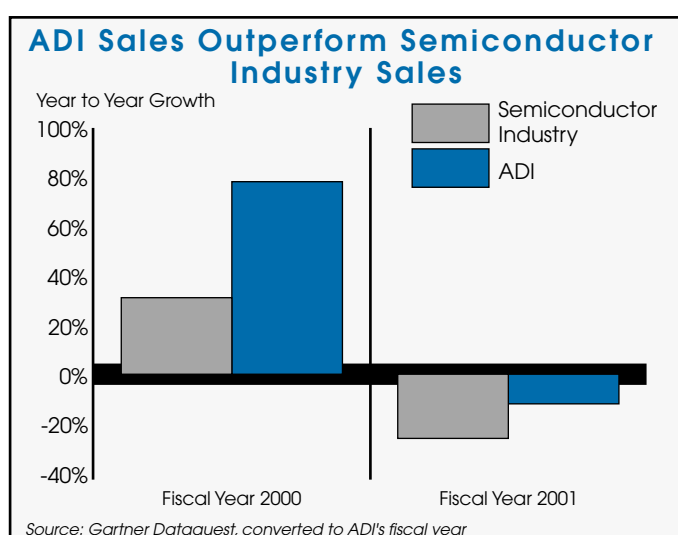
The events of 2001 also proved that in reacting to unprecedented volatility, experience counts. We concluded, earlier than most, that we were in uncharted waters and would need to react quickly, but prudently, to external events. By year-end, we had reduced manufacturing spending by 50% from peak levels and inventories by 26%, or over \$100 million from peak levels. We reduced ongoing quarterly operating expenses 22% from peak levels by taking several specific actions, which included eliminating bonuses, reducing the salaries of our 2,500 highest paid employees and selectively reducing staff. We also used this respite from high growth to accelerate our plans for reducing infrastructure costs throughout the company. We have now completed the move of 95% of all testing to Asia and have restructured all manufacturing planning and quality worldwide. These structural cost reductions should have a very positive impact on our gross and operating margins when sales growth resumes. These actions enabled us to produce very respectable financial results, with a fourth quarter gross margin of 52% of sales and pro forma operating margin of 14% of sales. During the year we generated over \$550 million of cash and increased our cash balance to \$2.8 billion.

NEW PRODUCT PROGRAMS CONTINUED

Despite all the volatility of 2001, we continue to believe that signal processing technology offers the most attractive opportunities in the semiconductor industry. Throughout the downturn, we used our financial resources to invest aggressively, building our signal processing product portfolio and further strengthening our organization and our competitive position. New product output again reached record levels in FY2001. R&D spending for the year increased 19% from FY2000, as we continued investments in our most important technology programs. We are still investing at an annual rate of \$400 million or nearly 25% of our fourth quarter sales. As they have in prior cycles, these investments in product development will continue to differentiate ADI as the cycle turns.

ADI GAINS MARKET SHARE IN BOTH UP AND DOWN CYCLES

Through the excitement and hyper growth of FY2000 and the precipitous declines in FY2001, ADI continued to build market share, as our sales grew more than twice as fast as the semiconductor market in FY2000 and declined less than half as much in FY2001. Our relentless focus on high-performance analog and digital signal processing (DSP) products, two of the highest-growth product families in the semiconductor industry, has allowed us to rapidly adapt our core technology to new market opportunities and is the basis of our impressive results over the past few years.



THE FUTURE IS REAL-WORLD SIGNAL PROCESSING

For the last 20 years, data processing equipment accounted for over 50% of all semiconductor revenues. Microprocessors and memory used in personal computers were the leading product categories as PC penetration expanded in response to higher processor speed and lower costs. High-performance analog and DSP were often regarded as little more than enhancements to advanced digital products for niche or high-end applications.

However, the mid to late 1990s marked the dawn of the era of signal processing. As new low-cost, real-time signal processing technology became affordable, new markets emerged to exploit this new technology. No longer would signal processing products simply be add-ons to existing digital products. Rather, high-performance analog and DSP have become the new bricks and

mortar of an emerging era of high-speed communications, digital entertainment and new industrial and medical products. Even computer makers have begun to differentiate their end products by the ability to process signals such as voice and video images, rather than just microprocessor speed. And of course, as the world continues its inevitable march toward wireless access and portability, managing power consumption, which is inherently an analog task, takes on ever-increasing significance.

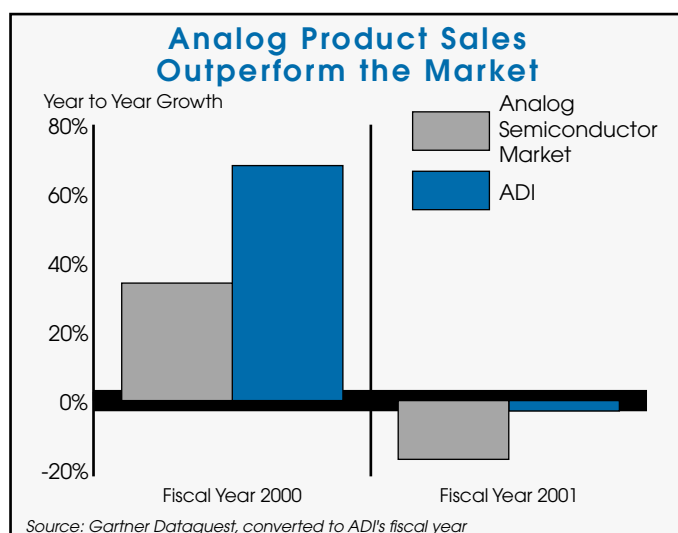
We expect that this revolution in technology will cause considerable dislocation in the semiconductor market over the coming years. Product families such as high-performance analog, which includes data converters and high-performance amplifiers, and DSP will offer the potential for above-market growth rates. Other semiconductor product categories may well suffer declining revenue growth rates or even total dollar declines. More than ever before, our ability to be in the right product spaces, with the right products and organization, will differentiate our performance.

HIGH-PERFORMANCE ANALOG IS THE KEY TO SIGNAL PROCESSING

The analog market is a great place to be in the new era of signal processing — it is one of the very few true franchises in our industry. As such, the analog market has always been a great place to invest. However, today it also offers the prospects of not only exceptional profits, but also above-market growth rates as voice, video and imaging applications increasingly drive the future of the semiconductor industry. Despite the extraordinary prospects for analog products, there are very few companies that can offer the breadth of products and the depth of technology required by leading customers. Among leading customers for high-performance analog products, there is little doubt that ADI is the number-one preferred supplier.

ADI'S ANALOG PRODUCT MARKET SHARE INCREASES IN BOTH UP AND DOWN CYCLES

Almost 80% of our revenues are derived from sales of analog products. Despite a difficult FY2001, our analog business declined just 3% from FY2000, after growing by 68% the preceding year. Among our analog competition, we both grew faster in FY2000 and declined less in FY2001, resulting in market share gains for both years.



Data converters provide the critical bridge between the analog and digital worlds, making them the single most important analog product category. Converters allow real-world analog signals such as voice and video to be processed digitally and also allow digital information to be displayed or converted to voice or other analog formats. ADI has long been recognized as a world leader in converter technology and our lead has increased significantly in recent years. Our market share in converters has increased to over 40%, well over twice the share of our nearest competitor. The converter market is not easily won by a single new product, a new market entrant or a seemingly strategic acquisition. Rather, like the overall analog business, it is a franchise, developed over many years of investment in technology, in products and, most importantly, in organizational competence. Simply put, we at ADI believe that we have the very best converter team by a very wide margin. Our converter business currently represents over 30% of our sales, with a portfolio of over 3,000 products and 40,000 customers worldwide.

High-performance amplifier products are the next key signal processing building block. From high-speed and high-performance general-purpose products to very specialized products, such as line drivers that power fast Internet connections, amplifier performance often differentiates system performance. As with converters, ADI has a commanding market share of over 40% in the very fragmented high-performance amplifier market. High-performance amplifiers make up over 20% of our total sales. In total, converter and amplifier products represent 55% of ADI's sales and we have greater than 40% market share in both product categories.

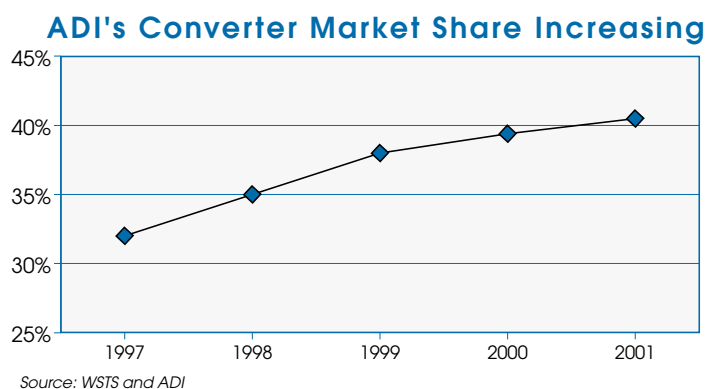
Beyond converters and amplifiers are many specialized analog functions such as radio frequency, transceiver and interface, power monitoring and management and more recently, micromachined products, that, in aggregate, represent an additional 25% of ADI's total sales. These are all categories in which our market share is high or growing.

HIGH-PERFORMANCE ANALOG IS A GREAT BUSINESS

As it has always been, the analog business is characterized by a high percentage of proprietary products with long design-in product life cycles, designed by very scarce engineering talent. It is a market where brand share and brand recognition are very important, and barriers to market entry are extremely strong. It provides high margins, with relatively low manufacturing capital intensity.

While margins in our analog business have, of course, declined this year as we decreased production levels, operating margins remained high and cash flow was extraordinary, despite sales at 40% below the peak levels recorded early in the year.

If we continue to execute our strategy, our lead should only continue to grow. In addition, despite our continued strong operating margins, we have been steadily reducing our infrastructure costs and are therefore planning for very good operating margin leverage when sales increase.



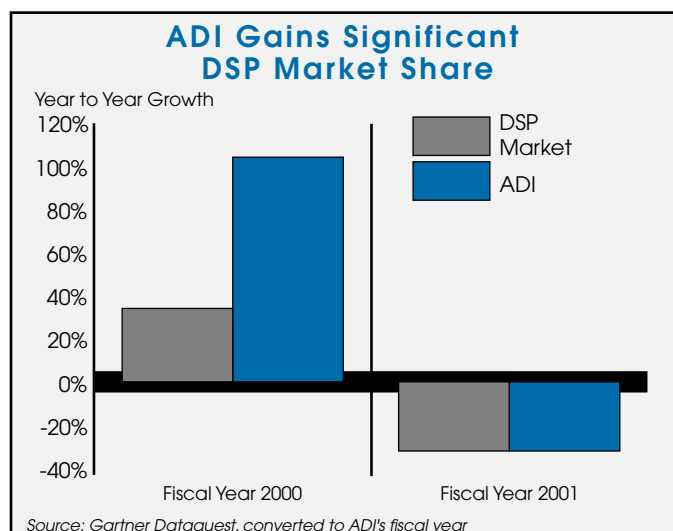
DSP COMPLETES THE SIGNAL CHAIN FOR ADI

Although analog-only companies often wish it were different, not all signals can be efficiently processed in the analog domain. As digital signal processing power continues to increase, DSP has become a critical technology in many high-performance signal processing applications.

The year 2001 marked a period of great progress for ADI's DSP product family. Early in the year, we announced the availability of our new Blackfin™ DSP core, which was the culmination of a joint ADI-Intel development program. This high-performance, low-power core will be the centerpiece of our 16-bit DSP family for the next few years. Initial industry analyst and customer reception has been very favorable and we have won many new key design-ins in both general-purpose products and products targeted for specific vertical applications, which usually also include our high-performance analog products. During 2001, we also expanded the TigerSHARC™ DSP family, designed for performance-driven applications such as radar, imaging and base station telecommunications equipment, where our newest product reduces costs by up to 50%. Customer reaction to this product has also been favorable. These two cores have substantially enhanced ADI's competitive position in the DSP market. Our clear goal is to take the technical high ground for DSPs in terms of speed, power and cost, much as we have done for many years in our analog business. With the introduction of Blackfin, TigerSHARC and their spin-offs scheduled for 2002, we are well on our way toward achieving this goal.

ADI GAINS SIGNIFICANT DSP MARKET SHARE

Our DSP revenues grew over 100% in FY2000 and 70% during the prior year, growth rates that significantly exceeded the growth of the overall DSP market. In FY2001, our DSP revenues declined 32%, which approximates the decline of the overall DSP market. As a result, we significantly increased our DSP market share in FY1999 and FY2000, and held those gains during FY2001, a remarkable achievement against tough competition.



ADI'S DSP PRODUCT STRATEGY IS WORKING

Similar to the analog market, the DSP market can be divided into two distinct parts: general-purpose and vertical markets. General-purpose DSPs are sold to thousands of customers who generally write their own code for a particular application. Given this fragmentation, gross margins are very high, but sales and marketing infrastructure costs are also high. Higher volume vertical markets often require the highest level of analog/DSP integration and the products are often sold to a much narrower customer base, sometimes even a single customer. For these applications, such as digital cameras, base stations and PDAs, gross margins tend to be somewhat lower, but sales and marketing costs are also lower. Our newest DSP cores are well suited to both general-purpose and vertical applications, both in terms of cost and performance.

We are winning in DSP because of the strength of our high-performance analog franchise, the competitive strength of our newest DSP cores and the early identification of DSP-intensive vertical markets where we can both grow rapidly and earn good margins. Since 75% of DSP sales have historically come from communications customers, DSP industry revenues were particularly hard hit by the well-documented woes in virtually every sector of the communications market. As the communications market recovers, we are poised to continue the tremendous progress that we have been making in DSP.

Because of the relatively high engineering intensity in DSP, coupled with a precipitous revenue decline, our DSP operating margin has declined significantly over the past several quarters. Despite these revenue declines, we have managed our inventory well by reducing external wafer purchases very early in the cycle when we began to see backlog instability. This business is also well positioned for strong profit leverage when sales increase.

CONTINUING TO DEVELOP THE ORGANIZATION FOR THE FUTURE

During 2001, we continued to strengthen the organization to prepare for future growth. Brian McAloon, formerly Vice President of Worldwide Sales, assumed responsibility for our entire DSP and Communications Systems business, integrating our DSP and System-On-A-Chip strategy, development programs, marketing and support functions for both horizontal and vertical markets. Brian's leadership skills and high energy level, coupled with his in-depth knowledge of our business and customer base, have added valuable focus and direction to this important area of our business.

Vincent Roche, another long-term ADI employee, formerly Vice President of Computer and Networking Products based in Silicon Valley, assumed responsibility for managing our sales force worldwide, succeeding Brian. Vincent brings a unique perspective to his new role, having spent 20 years in sales, applications, marketing and product line management and having been responsible for building many emerging product lines at ADI over many years.

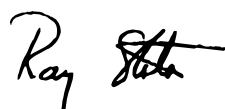
We also promoted four ADI technologists to Fellow, the highest level of technical achievement at ADI, bringing the number of Fellows to 28 out of our total engineering population of 3,000. The four ADI technologists who became Fellows in 2001 are Denis Doyle, who led the development of ADI's BiCMOS process and other process development innovations; Paul Ferguson, who led the development of switched capacitor circuits and higher-order sigma-delta converters; Josh Kablotsky, who played a critical role in the development of ADI's competency in DSP algorithms and software; and Larry Singer, who led the design of a series of ADI's very successful high-performance analog-to-digital converters.

These promotions are representative of the depth of the talent pool at ADI. Behind these individuals are approximately 9,000 other ADI employees who have made important contributions in helping us reach our current level of success.

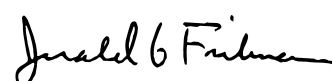
REFLECTIONS ON FY2001

In many ways, FY2001 was one of the most challenging years ever for ADI, as well as for the entire semiconductor industry. The true test of a management team does not necessarily occur when business conditions are favorable. Rather, the mettle of a team is more likely to be tested by how it manages through a period of market weakness while contending with incomplete, rapidly changing and often conflicting information. We believe that during the past year we have struck the right balance between our commitment to our employees and doing the best job possible for our shareholders during this tumultuous period. We believe that by our actions, we have stood tall relative to any other company in our industry in managing through this difficult cycle. We are extremely proud of and grateful to all our employees worldwide who come to work every day energized about what ADI can achieve and who are committed to our success. It is this dedication to winning that will be the foundation for the returns that we can provide to shareholders in the future. In addition, we are thankful to our shareholders who continue to have faith that ADI remains a great company in which to invest.

If anything, this cycle has reinforced our belief that we are in the best and most promising product areas in the entire semiconductor industry, areas that are poised for significant growth as industry conditions improve. And within these markets, we should be able to produce industry-leading returns. We should emerge from this cycle a much stronger and even more competitive company, with great market position, a solid reputation with our customers and an energized employee population, a claim that very few companies in our industry are able to make. We are ready to move back to a growth mode in 2002.



Ray Stata
Chairman of the Board



Jerald G. Fishman
President and Chief Executive Officer

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

Years ended November 3, 2001, October 28, 2000 and October 30, 1999
(thousands, except per share amounts)

		2001	2000	1999
Revenue	Net sales.....	\$2,276,915	\$2,577,547	\$1,450,379
Costs and Expenses	Cost of sales	<u>1,008,095</u>	<u>1,116,520</u>	<u>735,643</u>
	Gross margin.....	1,268,820	1,461,027	714,736
	Operating expenses:			
	Research and development	464,686	389,997	252,966
	Selling, marketing, general and administrative	287,146	293,364	209,639
	Purchased in-process research and development	9,500	-	5,140
	Amortization of intangibles	52,795	10,569	4,073
	Special charge	<u>47,007</u>	<u>-</u>	<u>-</u>
		861,134	693,930	471,818
	Operating income	407,686	767,097	242,918
	Equity in loss of WaferTech	-	-	1,149
	Nonoperating (income) expenses:			
	Interest expense	62,474	5,841	10,146
	Interest income	(132,647)	(63,430)	(26,726)
	Other.....	<u>(29,385)</u>	<u>(41,025)</u>	<u>809</u>
		<u>(99,558)</u>	<u>(98,614)</u>	<u>(15,771)</u>
Earnings	Income before income taxes	507,244	865,711	257,540
	Provision for income taxes:			
	Payable currently	180,790	271,123	44,139
	Deferred	<u>(29,923)</u>	<u>(12,544)</u>	<u>16,582</u>
		150,867	258,579	60,721
	Net income	<u>\$ 356,377</u>	<u>\$ 607,132</u>	<u>\$ 196,819</u>
	Shares used to compute earnings per share – Basic	<u>359,113</u>	<u>353,363</u>	<u>336,482</u>
	Shares used to compute earnings per share – Diluted	<u>381,962</u>	<u>381,157</u>	<u>362,904</u>
	Earnings per share – Basic	<u>\$1.00</u>	<u>\$1.71</u>	<u>\$0.58</u>
	Earnings per share – Diluted	<u>\$0.93</u>	<u>\$1.59</u>	<u>\$0.55</u>

See accompanying notes.

CONDENSED CONSOLIDATED BALANCE SHEETS

November 3, 2001 and October 28, 2000
(thousands, except share amounts)

Assets		2001	2000
Current Assets	Cash and cash equivalents	\$1,364,949	\$1,736,421
	Short-term investments	1,428,278	498,844
	Accounts receivable less allowances of \$15,398 (\$13,156 in 2000)	218,151	463,912
	Inventories	246,852	332,094
	Deferred tax assets	139,418	108,989
	Prepaid expenses and other current assets	37,271	27,754
	Total current assets	<u>3,434,919</u>	<u>3,168,014</u>
Property, Plant and Equipment, at Cost	Land and buildings.....	294,598	238,550
	Machinery and equipment	1,447,639	1,260,572
	Office equipment	92,792	86,930
	Leasehold improvements	130,528	120,710
		<u>1,965,557</u>	<u>1,706,762</u>
	Less accumulated depreciation and amortization	<u>1,057,615</u>	<u>927,536</u>
	Net property, plant and equipment	<u>907,942</u>	<u>779,226</u>
Other Assets	Investments	246,505	217,755
	Intangible assets, net	229,330	192,698
	Other assets	66,167	53,644
	Total other assets.....	<u>542,002</u>	<u>464,097</u>
		<u><u>\$4,884,863</u></u>	<u><u>\$4,411,337</u></u>
Liabilities and Stockholders' Equity			
Current Liabilities	Short-term borrowings and current portion of obligations under capital leases	\$ 6,432	\$ 15,690
	Accounts payable	79,784	213,196
	Deferred income on shipments to distributors	142,011	140,369
	Income taxes payable	121,844	86,625
	Accrued liabilities	<u>177,877</u>	<u>194,017</u>
	Total current liabilities	<u>527,948</u>	<u>649,897</u>
Noncurrent Liabilities	Long-term debt and obligations under capital leases	1,206,038	1,212,960
	Deferred income taxes	51,345	51,205
	Other noncurrent liabilities	<u>256,506</u>	<u>193,625</u>
	Total noncurrent liabilities	<u>1,513,889</u>	<u>1,457,790</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, 363,353,954 shares issued (357,969,010 in 2000)	60,560	59,663
	Capital in excess of par value, net of deferred compensation of \$25,892 (\$3,980 in 2000)	713,427	526,820
	Retained earnings	2,074,320	1,717,943
	Accumulated other comprehensive income	<u>(204)</u>	<u>2,841</u>
		<u>2,848,103</u>	<u>2,307,267</u>
	Less 103,630 shares in treasury, at cost (45,186 in 2000)	<u>5,077</u>	<u>3,617</u>
	Total stockholders' equity	<u>2,843,026</u>	<u>2,303,650</u>
		<u><u>\$4,884,863</u></u>	<u><u>\$4,411,337</u></u>

See accompanying notes.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended November 3, 2001, October 28, 2000 and October 30, 1999
(thousands)

		2001	2000	1999
Operations	Cash flows from operations:			
	Net income	\$ 356,377	\$ 607,132	\$ 196,819
	Adjustments to reconcile net income to net cash provided by operations:			
	Depreciation and amortization	210,490	156,671	142,598
	Gain on sale of investments.....	(28,084)	(43,857)	-
	Non-cash portion of special charge	14,073	-	-
	Purchased in-process research and development.....	9,500	-	5,140
	Equity in loss of WaferTech, net of dividends.....	-	-	1,149
	Tax benefit – stock option exercises.....	90,581	30,073	15,104
	Deferred income taxes.....	(29,923)	(12,544)	16,582
	Change in operating assets and liabilities:			
	Decrease (increase) in accounts receivable	237,344	(213,696)	(55,980)
	Decrease (increase) in inventories	82,267	(82,321)	28,424
	(Increase) decrease in prepaid expenses and other current assets	(8,507)	(9,706)	4,292
	Increase in investments – trading	(60,751)	(123,165)	(28,098)
	(Decrease) increase in accounts payable, deferred income and accrued liabilities.....	(138,609)	233,408	57,096
	Increase in income taxes payable	35,712	20,204	27,774
	Increase in other liabilities	73,143	142,306	31,525
	Total adjustments.....	<u>487,236</u>	<u>97,373</u>	<u>245,606</u>
	Net cash provided by operations.....	<u>843,613</u>	<u>704,505</u>	<u>442,425</u>
Investments	Cash flows from investments:			
	Additions to property, plant and equipment, net	(297,236)	(274,837)	(77,500)
	Purchase of short-term investments available-for-sale ...	(2,963,922)	(868,394)	(628,823)
	Maturities of short-term investments available-for-sale .	2,034,488	776,103	263,845
	Proceeds from sale of investment.....	60,936	64,641	-
	(Increase) decrease in long-term investments	(4,750)	348	101,501
	Payments for acquisitions, net of cash acquired	(38,469)	(169,270)	(20,499)
	(Increase) decrease in other assets	(11,427)	15,192	3,435
	Net cash used for investments.....	<u>(1,220,380)</u>	<u>(456,217)</u>	<u>(358,041)</u>
Financing Activities	Cash flows from financing activities:			
	Proceeds from issuance of long-term debt	-	1,172,135	-
	Repurchase of common stock.....	(21,831)	-	-
	Proceeds from employee stock plans	39,947	42,864	19,050
	Payments on capital lease obligations	(10,746)	(8,293)	(14,109)
	Net (decrease) increase in variable rate borrowings	(5,473)	(76,416)	1,776
	Net cash provided by financing activities	<u>1,897</u>	<u>1,130,290</u>	<u>6,717</u>
	Effect of exchange rate changes on cash	3,398	1,952	1,459
	Net (decrease) increase in cash and cash equivalents	(371,472)	1,380,530	92,560
	Cash and cash equivalents at beginning of year	<u>1,736,421</u>	<u>355,891</u>	<u>263,331</u>
	Cash and cash equivalents at end of year.....	<u>\$1,364,949</u>	<u>\$1,736,421</u>	<u>\$ 355,891</u>

See accompanying notes.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Years ended November 3, 2001, October 28, 2000 and October 30, 1999

Summary of Significant Accounting Policies

Principles of Consolidation - The consolidated financial statements include the accounts of the Company and all of its wholly owned subsidiaries. Upon consolidation, all significant intercompany accounts and transactions are eliminated. The Company's fiscal year ends on the 52-week or 53-week period ending on the Saturday closest to the last day in October. Fiscal year 2001 was a 53-week year, and fiscal years 2000 and 1999 were each 52-week years.

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.

Inventories - Inventories are valued at the lower of cost (first-in, first-out method) or market.

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.

Goodwill and Other Acquisition-related Intangibles - Goodwill and intangibles (includes items such as acquired trained workforce and customer base) are evaluated for impairment periodically or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable based on the related undiscounted cash flows. Amortization lives are principally five years.

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.

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 other comprehensive income.

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 2001, 2000 and 1999.

Derivative Instruments and Hedging 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 the impact of changes in foreign currency exchange rates. Such exposures result from the portion of the Company's operations, assets and liabilities that are denominated in currencies other than the U.S. dollar, primarily the Japanese yen and the Euro. These foreign exchange contracts 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.

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 revenue 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.

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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.

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.

Revenue Recognition - Prior to fiscal 2001, the Company recognized revenue from product sales to end users upon shipment. In fiscal 2001, the Company adopted the provisions of Securities and Exchange Commission Staff Accounting Bulletin 101. Accordingly, revenue from product sales to end-users is now recognized when title passes, which for shipments to certain foreign countries is subsequent to product shipment. This accounting change did not materially impact the Company's results of operations for fiscal 2001. For all periods presented, revenue is deferred on sales made through distributors until the distributors resell the products to the end users.

Comprehensive Income - Components of comprehensive income include net income and certain transactions that have generally been reported in the consolidated statement of stockholders' equity. Other comprehensive income is comprised of net income, currency translation adjustments, available-for-sale securities valuation adjustments, and net gain or loss on derivative instruments designated as cash flow hedges.

Advertising Expense - Advertising costs are expensed as incurred. Advertising expense was \$10.4 million in fiscal 2001, \$16.1 million in fiscal 2000 and \$13.0 million in fiscal 1999.

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.

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 other potentially dilutive securities. In calculating diluted earnings per share, the dilutive effect of stock options is computed using the average market price for the period. In fiscal 2001, a total of 9,246,720 shares related to convertible debt financing and 7,533,121 shares related to outstanding stock options are excluded from the earnings per share calculation because the effect would be anti-dilutive, but these shares could be dilutive in the future. In fiscal 2000, a total of 2,311,680 shares related to convertible debt financing are excluded from the earnings per share calculation because the effect would be anti-dilutive.

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 related interpretations and, accordingly, recognizes no compensation expense for the stock option grants. The Company has granted restricted stock for a fixed number of shares to employees for nominal consideration. Compensation expense related to restricted stock awards is recorded ratably over the restriction period.

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

Please see our Annual Report on Form 10-K for a complete set of our financial statements and related footnotes.

REPORT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

The Board of Directors and Stockholders
Analog Devices, Inc.

We have audited, in accordance with auditing standards generally accepted in the United States, the consolidated balance sheets of Analog Devices, Inc. as of November 3, 2001 and October 28, 2000 and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended November 3, 2001 (not presented separately herein) and in our report dated November 19, 2001, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheets and related condensed consolidated statements of income and cash flows is fairly stated in all material respects in relation to the consolidated financial statements from which it has been derived.

Ernst & Young LLP

Boston, Massachusetts
November 19, 2001

PRO FORMA ANNUAL STATEMENTS OF INCOME (Unaudited)

(thousands except per share amounts)	2001	2000	1999	1998	1997
Net sales	\$2,276,915	\$2,577,547	\$1,450,379	\$1,230,571	\$1,243,494
Gross margin	1,268,820	1,461,027	714,736	588,486	620,963
Research and development	456,452	389,997	252,966	219,354	196,148
Selling, marketing, general and administrative	287,146	293,364	209,639	207,487	191,613
Operating income	525,222	777,666	252,131	161,645	233,202
Equity in loss (income) of WaferTech	-	-	1,149	9,780	(214)
Other (income) expense	(71,473)	(57,579)	(18,595)	(2,494)	(2,463)
Income before income taxes	596,695	835,245	269,577	154,359	235,879
Provision for income taxes	172,209	246,435	61,943	34,371	57,660
Pro forma net income	\$ 424,486	\$ 588,810	\$ 207,634	\$ 119,988	\$ 178,219
Pro forma net income per share:					
Diluted	\$ 1.12	\$ 1.54	\$ 0.57	\$ 0.36	\$ 0.52

PRO FORMA QUARTERLY STATEMENTS OF INCOME (Unaudited)

(\$ in thousands except per share amounts)

	4Q01	3Q01	2Q01	1Q01	4Q00	3Q00	2Q00	1Q00
Net sales	423,313	479,886	601,442	772,274	805,617	700,658	580,995	490,277
Gross margin	219,881	253,878	342,807	452,254	471,887	400,139	323,811	265,190
% of sales	51.9%	52.9%	57.0%	58.6%	58.6%	57.1%	55.7%	54.1%
Operating expenses:								
Research and development	103,611	110,309	120,822	121,710	114,625	102,830	90,026	82,516
Selling, marketing, general and administrative	57,447	66,583	77,563	85,553	80,569	77,198	71,073	64,524
Total operating expenses	161,058	176,892	198,385	207,263	195,194	180,028	161,099	147,040
Operating income	58,823	76,986	144,422	244,991	276,693	220,111	162,712	118,150
% of sales	13.9%	16.0%	24.0%	31.7%	34.3%	31.4%	28.0%	24.1%
Other (income) expenses	(11,664)	(14,654)	(20,040)	(25,115)	(18,155)	(15,572)	(12,324)	(11,528)
Income before income taxes	70,487	91,640	164,462	270,106	294,848	235,683	175,036	129,678
Provision for income taxes	17,622	26,942	47,694	79,951	88,324	70,579	52,308	35,224
Tax rate	25%	29%	29%	30%	30%	30%	30%	27%
Pro forma net income	52,865	64,698	116,768	190,155	206,524	165,104	122,728	94,454
% of sales	13%	13%	19%	25%	26%	23%	21%	19%
Per share - diluted	.14	.17	.31	.50	.54	.43	.32	.25
Shares used to compute diluted net income per share	381,775	381,903	380,777	383,392	384,307	383,544	382,321	374,458

The above pro forma information, which management believes provides for a meaningful comparison of quarterly and annual results, was not prepared in accordance with generally accepted accounting principles (GAAP) and excludes the following amounts (in thousands): amortization of intangibles (2001-\$52,795; 2000-\$13,393; 1999-\$6,897), acquisition-related expenses (2001-\$17,734; 1999-\$5,140), special charges (2001-\$47,007; 1998-\$17,000), realized gains on investments (2001-\$28,085; 2000-\$43,859) and gain on sale of business (1998-\$13,100). The tax effect on these amounts has also been reflected. These adjustments are also reflected in the quarterly information displayed above. Please refer to the body of this report for a summary of the Company's GAAP results.

CORPORATE INFORMATION

Board of Directors

Ray Stata <i>Chairman of the Board</i> Analog Devices, Inc., Norwood, MA	Charles O. Holliday, Jr. <i>Chairman of the Board and Chief Executive Officer</i> E.I. DuPont de Nemours & Co., Inc., Wilmington, DE	F. Grant Saviers <i>Retired Chairman of the Board and Chief Executive Officer</i> Adaptec, Inc., Milpitas, CA
Jerald G. Fishman <i>President and Chief Executive Officer</i> Analog Devices, Inc., Norwood, MA	Joel Moses <i>Institute Professor, Professor of Computer Science and Engineering Systems</i> Massachusetts Institute of Technology, Cambridge, MA	Lester C. Thurow <i>Professor of Management and Economics</i> Massachusetts Institute of Technology, Cambridge, MA
John L. Doyle <i>Retired Executive Vice President</i> Hewlett-Packard Company, Palo Alto, CA		

Corporate Officers

Ray Stata <i>Chairman of the Board</i>	Rob Marshall <i>Vice President, Worldwide Manufacturing</i>	Joseph E. McDonough <i>Vice President, Finance, and Chief Financial Officer</i>
Jerald G. Fishman <i>President and Chief Executive Officer</i>	William A. Martin <i>Treasurer</i>	Vincent Roche <i>Vice President, Worldwide Sales</i>
Ross Brown <i>Vice President, Human Resources</i>	Robert McAdam <i>Vice President and General Manager</i> Analog Semiconductor Components	Franklin Weigold <i>Vice President and General Manager</i> Micromachined Products
Samuel H. Fuller <i>Vice President, Research and Development</i>	Brian McAloon <i>Group Vice President, DSP and System Products Group</i>	Paul P. Brountas <i>Clerk; Senior Partner</i> Hale and Dorr LLP, Boston, MA
Russell K. Johnsen <i>Vice President, Corporate Business Development</i>		

Vice Presidents

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

Fellows

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

General Counsel

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

Independent Auditors

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

Transfer Agent

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Annual Meeting

Analog Devices will hold its Annual Stockholders' Meeting at 10:00 a.m., Tuesday, March 12, 2002, 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 Austria, Brazil, Canada, China, Denmark, France, Germany, Hong Kong, India, Israel, Italy, Japan, Korea, the Netherlands, Singapore, Sweden, Taiwan and the United Kingdom; and more than fifty offices of representatives throughout the United States and around the world. The Company has European Headquarters in Munich, Germany; Japanese Headquarters in Tokyo, Japan; and Southeast Asian Headquarters in Hong Kong, PRC. Analog Devices' products are also sold through distributors.

Manufacturing Facilities

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

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 2001 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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