

ANALOG DEVICES INC  
Form 10-K  
November 20, 2006

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

Form 10-K

(Mark One)

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

For the fiscal year ended October 28, 2006

OR

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

For the transition period from to

Commission File No. 1-7819

Analog Devices, Inc.

(Exact name of registrant as specified in its charter)

Massachusetts

(State or other jurisdiction of  
incorporation or organization)

One Technology Way, Norwood, MA

(Address of principal executive offices)

04-2348234

(I.R.S. Employer  
Identification No.)

02062-9106

(Zip Code)

(781) 329-4700

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Common Stock \$0.162/3 Par Value

Title of Each Class

New York Stock Exchange

Name of Each Exchange on Which Registered

Securities registered pursuant to Section 12(g) of the Act:

None

Title of Class

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES ☐ NO ☒

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Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES ☐ NO ☒

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):  
Large Accelerated Filer ☒ Accelerated Filer ☐ Non-Accelerated Filer ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES ☐ NO ☒

The aggregate market value of the voting and non-voting common equity held by nonaffiliates of the registrant was approximately \$10,106,000,000 based on the last reported sale of the Common Stock on the New York Stock Exchange Composite Tape reporting system on April 28, 2006. Shares of voting and non-voting stock held by executive officers, directors and holders of more than 5% of the outstanding stock have been excluded from this calculation because such persons or institutions may be deemed affiliates. This determination of affiliate status is not a conclusive determination for other purposes.

As of October 28, 2006 there were 342,000,004 shares of Common Stock, \$0.162/3 par value per share, outstanding.

### Documents Incorporated by Reference

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**PART I**

**ITEM 1. BUSINESS**

**Company Overview**

We are a world leader in the design, manufacture and marketing of high-performance analog, mixed-signal and digital signal processing integrated circuits used in industrial, communication, computer and consumer applications. Since our inception in 1965, we have focused on solving the engineering challenges associated with signal processing in electronic equipment. Real world signal processing describes the process of converting real-world phenomena such as temperature, motion, pressure, light and sound into electrical signals to be used in a wide array of electronic equipment ranging from industrial process control, factory automation systems, defense electronics, portable wireless communications devices, cellular basestations, central office networking equipment, computers, automobiles, medical imaging equipment, digital cameras and digital televisions. Signal processing technology is a critical element of high-speed communications, digital entertainment, and other consumer, computer and industrial applications. As new generations of digital applications evolve, they generate new needs for high-performance analog signal processing and digital signal processing, or DSP, technology. We produce a wide range of products that are designed to meet the signal processing technology needs of a broad base of customers.

During our fiscal year ended October 28, 2006, or fiscal 2006, approximately 42% of our revenue came from the industrial market, which includes factory automation, medical equipment, scientific instrumentation, automatic test equipment, automotive electronics, security equipment, and aerospace and defense systems.

Revenue from the communications market represented approximately 29% of our fiscal 2006 revenue. Communications applications include wireless handsets and wireless basestations, as well as products used for high-speed access to the Internet, including broadband modems and central office networking equipment.

The demand for our products used in high-performance consumer electronics has been increasing and represented approximately 17% of our revenue for fiscal 2006. Applications in this market include digital cameras and camcorders, flat-panel and plasma digital televisions, and surround sound audio systems.

We also serve the personal computer market with products that monitor and manage power usage, process signals used in flat panel displays and multimedia projectors, and enable high-quality audio. In fiscal 2006, the computer market accounted for approximately 12% of our revenue.

We sell our products worldwide through a direct sales force, third-party distributors and independent sales representatives. We have direct sales offices in 20 countries, including the United States.

We are headquartered near Boston, in Norwood, Massachusetts, and have manufacturing facilities in Massachusetts, North Carolina, Ireland and the Philippines. On November 9, 2006, we closed our Sunnyvale, California wafer fabrication facility and transferred virtually all of the production of products manufactured there to our facility in Wilmington, Massachusetts. We were founded in 1965 and are incorporated in Massachusetts. As of October 28, 2006, we employed approximately 9,800 individuals worldwide. Our common stock is listed on the New York Stock Exchange under the symbol ADI and is included in the Standard & Poor's 500 Index.

We maintain a website with the address [www.analog.com](http://www.analog.com). We are not including the information contained on our website as a part of, or incorporating it by reference into, this Annual Report on Form 10-K. We make available free

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of charge through our website our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, and amendments to these reports, as soon as reasonably practicable after we electronically file such material with, or furnish such material to, the Securities and Exchange Commission. We also make available on our website our corporate governance guidelines, the charters for our audit committee, compensation committee, and nominating and corporate governance committee, our stock option granting policies and our code of business conduct and ethics, and such information is available in print to any stockholder of Analog Devices who requests it. In addition, we intend to disclose on our website any amendments to, or waivers from, our code of business conduct and ethics that are required to be publicly disclosed pursuant to rules of the Securities and Exchange Commission and the New York Stock Exchange.

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**Industry Background**

All electronic signals fall into one of two categories, analog or digital. Analog, also known as linear, signals represent real-world phenomena, such as temperature, pressure, sound, speed and motion. This information can be detected and measured using analog sensors, which represent real-world phenomena by generating continuously-varying voltages and currents. The signals from these sensors are initially processed using analog methods, such as amplification, filtering and shaping. They are then usually converted to digital form for storage or further manipulation. The further manipulation of the signals after conversion to digital form is called digital signal processing. Digital signals represent the ones and zeros of binary arithmetic and are either on or off. Digital signals are frequently converted back to analog form for functions such as video display, audio output or control. These manipulations and transformations from analog to digital and back to analog are known as real-world signal processing within the signal chain.

Significant advances in semiconductor technology in recent years have substantially increased the performance and functionality of integrated circuits, or ICs, used in signal processing applications. These advances include the ability to combine analog and digital signal processing capability on a single chip, thereby making possible more highly-integrated solutions. The widespread application of low-cost, high-performance microprocessor-based systems and the ongoing transition to digital media for communications, music, photography, and video has increased the need for precise, high-speed signal conditioning interfaces between the analog world and digital electronics. At the same time, the convergence of computing and communications has resulted in end products that incorporate state-of-the-art signal processing capability onto as few chips as possible. Our products are designed to be used within electronic equipment to achieve higher performance, including greater speed, improved accuracy, more efficient signal processing and minimized power consumption.

**Principal Products**

We design, manufacture and market a broad line of high-performance ICs that incorporate analog, mixed-signal and digital signal processing technologies. Our ICs are designed to address a wide range of real-world signal processing applications. Across the entire range of our signal processing ICs are both general-purpose standard products used by a broad range of customers and applications as well as application-specific products designed for specific clusters of customers in key target markets. By using readily available, high-performance, general-purpose products in their systems, our customers can reduce the time they need to bring new products to market. Given the high cost of developing more customized ICs, our standard products often provide the most cost-effective solution for many low to medium volume applications. However, in some communications, computer and consumer products, we focus on working with leading customers to design application-specific solutions. We begin with our existing core technologies in analog and DSP, and devise a solution to more closely meet the needs of a specific customer or group of customers. Because we have already developed the core technology for our general-purpose products, we can create application-specific solutions quickly.

We produce and market several thousand products. Our ten highest revenue products, in the aggregate, accounted for approximately 10% of our revenue for fiscal 2006. The majority of our products are proprietary, meaning equivalent products are not available from competitors. A limited number of other companies may provide products with similar functions.

*Analog Products*

Our analog IC technology has been the foundation of our business for four decades, and we believe we are one of the world's largest suppliers of analog ICs. Our analog ICs are primarily high-performance devices, generally defined as devices that support a minimum of 10-bits of accuracy and a minimum of 50 megahertz of speed. The principal advantages these products have versus competitors' products include higher accuracy, lower cost per function, smaller

size, lower power consumption and fewer components resulting in improved reliability. The majority of our analog IC product revenue is attributable to sales of data converters and amplifiers. The data converter and amplifier product categories represented approximately 61% of our fiscal 2006 revenue. Over the past several years we have been expanding our analog IC product offerings along the entire analog signal chain and into

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product areas such as radio frequency integrated circuits, or RF ICs, and power management products such as voltage regulators and thermal monitoring ICs, phase locked loops and high-speed clock ICs.

The majority of our analog IC products are proprietary to us in their design and our product portfolio addresses a wide range of applications. Our product portfolio includes several thousand analog ICs, any one of which can have as many as several hundred customers. Our analog ICs typically have long product life cycles. Our analog IC customers include both original equipment manufacturers, or OEMs, and customers who build electronic subsystems for integration into larger systems.

Our analog technology base also includes products using an advanced IC technology known in the industry as surface micromachining, which is used to produce semiconductor products known as micro-electromechanical systems, or MEMS. This technology enables extremely small mechanical sensing elements to be built on the surface of a chip along with supporting circuitry. In addition to incorporating an electro-mechanical structure, these devices also have analog circuitry for conditioning signals obtained from the sensing element. The integration of signal conditioning and MEMS is a unique feature of our products which we call iMEMS<sup>®</sup>. Our iMEMS product portfolio includes accelerometers used to sense acceleration, and gyroscopes used to sense position. The majority of our current revenue from MEMS products is derived from accelerometers used by automotive manufacturers in airbag applications. However, revenue from consumer and industrial customers is increasing as we develop products using this technology for applications in these end markets.

### *DSP Products*

DSPs are processors that are optimized for high-speed numeric calculations, which are essential for instantaneous, or real-time, processing of digital data generated, in most cases, from analog to digital signal conversion. Our DSP products are designed to be fully programmable and to efficiently execute specialized software programs, or algorithms, associated with processing digitized real-time, real-world data. Programmable DSPs provide the flexibility to modify the device's function quickly and inexpensively in software. We offer both general-purpose and application-specific DSP products. General-purpose DSP IC customers typically write their own algorithms using software development tools that we provide and software development tools they obtain from third-party suppliers. Our application-specific DSP products typically include analog and DSP technology and the DSPs are preprogrammed to execute software for applications such as wireless telecommunications or image processing. Our DSPs are designed in families of products that share a common architecture and therefore can execute the same software. We support these products with easy-to-use, low-cost development tools, which reduce our customers product development costs and time-to-market.

We also have the capability to combine our analog and digital signal processing technology into multi-function mixed-signal devices and chipsets. The growing technological demands associated with the use of audio and video in computers and consumer products as well as the networking of communications systems has created new opportunities for these mixed-signal products.

## **Markets and Applications**

The following describes some of the characteristics of, and customer products within, our major markets:

***Industrial*** Our industrial market includes the following areas:

***Industrial Process Automation*** Our industrial process automation market includes applications such as factory automation systems, automatic process control systems, robotics, environmental control systems and automatic test equipment. These applications generally require ICs that offer performance greater than that available from

commodity-level ICs, but generally do not have production volumes that warrant custom or application-specific ICs. Combinations of analog, mixed-signal and DSP ICs are usually employed to achieve the necessary functionality. Automatic test equipment applications have created opportunities for the design of application-specific ICs that require a high level of electronic circuitry.

*Instrumentation* Our instrumentation market includes engineering, medical and scientific instruments. These applications are usually designed using the highest performance analog and mixed-signal ICs available.

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Customer products include oscilloscopes, logic analyzers, CT scanners, MRI equipment, blood analyzers and microscopes.

***Defense/Aerospace*** The defense, commercial avionics and space markets all require high-performance ICs that meet rigorous environmental and reliability specifications. Many of our analog ICs can be supplied in versions that meet these standards. In addition, many products can be supplied to meet the standards required for broadcast satellites and other commercial space applications. Most of our products sold in this market are specifically-tested versions of products derived from our standard product offering. Customer products include navigation systems, flight simulators, radar systems and security devices.

***Automotive*** Although the automotive market has historically been served with low-cost, low-performance ICs, demand has emerged for higher performance devices for a wide range of safety and entertainment applications. In response, we have developed products specifically for the automotive market. We supply a micromachined IC used as a crash sensor in airbag systems, roll-over sensing, global positioning satellite, or GPS, automotive navigation systems, anti-lock brakes and smart suspension systems. In addition, our analog and DSP ICs have application in engine control, in-cabin electronics, audio and collision avoidance systems.

***Communications*** The development of broadband, wireless and Internet infrastructures around the world has created an important market for our communications products. Communications technology involves the acquisition of analog signals that are converted from analog to digital and digital to analog form during the process of transmitting and receiving data. The need for higher speed and reduced power consumption, coupled with more reliable, bandwidth-efficient communications, has been creating demand for our products. Our products are used in the full spectrum of signal processing for audio, data, image and video communication. In wireless and broadband communication applications, our products are incorporated into cellular handsets, cellular base station equipment, modems, pagers, PBX switches, routers and remote access servers.

***Consumer Electronics*** Increased market demand for digital entertainment systems has allowed us to combine analog and digital design capability to provide solutions that are designed to meet the rigorous cost, size and reliability requirements of the consumer electronics market. The emergence of high-performance, feature-rich consumer products, such as digital camcorders and cameras, home theater systems, advanced flat-screen and plasma digital televisions, video projectors and high-definition DVD recorders/players, has created a market for our high-performance ICs with a high level of specific functionality.

***Computers and Computer Peripherals*** Image and sound-enabled applications used in computer gaming and web sites and the increasing need for power and thermal management capability in PCs have provided opportunities for us in the computer market. The computer industry seeks to develop and market increasingly smaller and lighter personal computers. This need has increased demand for high-performance ICs that monitor power usage, enabling manufacturers to use smaller batteries and extend battery life between charges. In addition, we currently supply a variety of ICs used in this market for enhanced audio input and output capability for business and entertainment applications.

## **Research and Development**

Our markets are characterized by rapid technological changes and advances. Accordingly, we make substantial investments in the design and development of new products and manufacturing processes, and the improvement of existing products and manufacturing processes. We spent approximately \$537 million during fiscal 2006 on the design, development and improvement of new and existing products and manufacturing processes, compared to approximately \$497 million during fiscal 2005 and approximately \$514 million during fiscal 2004.

Our research and development strategy focuses on building technical leadership in core technologies for signal sensing, conditioning, conversion and processing. In support of our research and development activities, we employ thousands of engineers involved in product and manufacturing process development at over 30 design centers and manufacturing sites located throughout the world.

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**Patents and Other Intellectual Property Rights**

We seek to establish and maintain our proprietary rights in our technology and products through the use of patents, copyrights, trademarks and trade secret laws. We have a program to file applications for and obtain patents, copyrights, and trademarks in the United States and in selected foreign countries where we believe filing for such protection is appropriate. We also seek to maintain our trade secrets and confidential information by nondisclosure policies and through the use of appropriate confidentiality agreements. We have obtained a substantial number of patents and trademarks in the United States and in other countries. As of October 28, 2006, we held 1,202 U.S. patents and had 513 non-provisional pending U.S. patent applications. There can be no assurance, however, that the rights obtained can be successfully enforced against infringing products in every jurisdiction. While our patents, copyrights, trademarks and trade secrets provide some advantage and protection, we believe our competitive position and future success is largely determined by such factors as the system and application knowledge, innovative skills, technological expertise, and management ability and experience of our personnel, the range and success of new products being developed by us, our market brand recognition and ongoing marketing efforts, customer service and technical support. It is generally our policy to seek patent protection for significant inventions that may be patented, though we may elect, in certain cases, not to seek patent protection even for significant inventions, if other protection, such as maintaining the invention as a trade secret, to be more advantageous. We also have trademarks that are used in the conduct of our business to distinguish genuine Analog Devices products and we maintain cooperative advertising programs to promote our brands and identify products containing genuine Analog Devices components. In addition, we have registered certain of our mask sets, which are akin to the blueprint for building an IC, under the Semiconductor Chip Protection Act of 1984.

There can be no assurance that any patent will issue on pending applications or that any patent issued will provide substantive protection for the technology or product covered by it. There also can be no assurance that others will not develop or patent similar technology or reverse engineer our products or that our confidentiality agreements with employees, consultants, wafer foundries and other suppliers and vendors will be adequate to protect our interests. Moreover, the laws of countries in which we design, manufacture and market our products may afford little or no effective protection of our proprietary technology.

The semiconductor industry is characterized by frequent claims and litigation involving patent and other intellectual property rights, including claims arising under our contractual indemnification of our customers. We have received from time to time, and may receive in the future, claims from third parties asserting that our products or processes infringe their patents or other intellectual property rights. In the event a third party makes a valid intellectual property claim against us and a license is not available to us on commercially reasonable terms, or at all, we could be forced either to redesign or to stop production of products incorporating that intellectual property, and our operating results could be materially and adversely affected. Litigation may be necessary to enforce our patents or other of our intellectual property rights or to defend us against claims of infringement, and this litigation could be costly and divert the attention of our key personnel. See Note 13 in the Notes to our Consolidated Financial Statements contained in Item 8 of this Annual Report on Form 10-K for information concerning pending litigation that involves us. An adverse outcome in these matters or other litigation could have a material adverse effect on our consolidated financial position or on our consolidated results of operations or cash flows in the period in which the litigation is resolved.

**Sales Channels**

We sell our products in North America and internationally through a direct sales force, third-party distributors, independent sales representatives and via our worldwide website on the Internet.

Approximately 51% of our fiscal 2006 revenue was derived from sales made through distributors. Revenue is deferred on sales made through distributors until the distributors resell our products to the end customer, known as 100% sell

out or 100% sell through in the industry. These distributors typically maintain an inventory of our products. Some of them also sell products competitive with our products, including those for which we are an alternate source. Sales to certain distributors are made under agreements that provide protection to the distributors for their inventory of our products including limited product return privileges and protection against price reductions and products that are slow-moving or that we have discontinued.

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Approximately 25% of our fiscal 2006 net sales were to customers in North America. As of October 28, 2006, we had 11 direct sales offices in the United States.

Approximately 22% of our fiscal 2006 net sales were to customers in Europe. As of October 28, 2006, we had direct sales offices in Austria, Belgium, Denmark, Finland, France, Germany, Israel, Italy, the Netherlands, Sweden and the United Kingdom.

Approximately 19% of our fiscal 2006 net sales were to customers in Japan. Approximately 13% of our fiscal 2006 net sales were to customers in China and approximately 21% were to customers elsewhere in Asia, principally Taiwan and Korea. As of October 28, 2006, we had direct sales offices in the Asia region in China, Hong Kong, India, Japan, Korea, Singapore and Taiwan.

We also have sales representatives and/or distributors in over 45 countries outside North America, including countries where we also have direct sales offices. For further detail regarding revenue and financial information about geographic areas, see our Consolidated Financial Statements and Note 4 in the related Notes contained in Item 8 of this Annual Report on Form 10-K.

Our worldwide technical direct field sales efforts are supported by an extensive promotional program that includes editorial coverage and paid advertising in trade publications, direct mail programs, promotional brochures, technical seminars and participation in trade shows. We publish and distribute full-length databooks, product catalogs, applications guides, technical handbooks and detailed data sheets for individual products. We also provide product and application information and sell products via our worldwide website on the Internet. We maintain a staff of field application engineers who aid customers in incorporating our products into their products.

We have tens of thousands of customers worldwide. Our largest single customer, excluding distributors, represented approximately 3% of our fiscal 2006 net sales, and our 20 largest customers, excluding distributors, accounted for approximately 29% of our fiscal 2006 net sales.

## **Seasonality**

Sales to customers during our first fiscal quarter are sometimes lower than other quarters due to plant shutdowns at some of our customers during the holiday season. In general, the seasonality for any specific period of time has not had a material impact on our results of operations. In addition, as explained in our risk factors, our revenue is more likely to be influenced on a quarter to quarter basis by cyclicalities in the semiconductor industry.

## **Foreign Operations**

Through subsidiaries and affiliates, we conduct business in numerous countries outside the United States. During fiscal 2006, approximately 75% of our revenue was derived from customers in international markets. Our international business is subject to risks customarily encountered in foreign operations, including fluctuations in foreign currency exchange rates and controls, import and export controls, and other laws, policies and regulations of foreign governments. Although we engage in hedging transactions to reduce our exposure to currency exchange rate fluctuations, there can be no assurance that our competitive position will not be adversely affected by changes in the exchange rate of the United States dollar against other currencies.

We have manufacturing facilities outside the United States in Ireland and the Philippines. In addition to being exposed to the ongoing economic cycles in the semiconductor industry, we are also subject to the economic and political risks inherent in international operations and their impact on the United States economy in general, including the risks associated with ongoing uncertainties and political and economic instability in many countries around the world as

well as the economic disruption from acts of terrorism, and the response to them by the United States and its allies. Other business risks associated with international operations include increased managerial complexities, air transportation disruptions, expropriation, currency controls, currency exchange rate movement, additional costs related to foreign taxes, tariffs and freight rate increases, exposure to different business practices and legal standards, particularly with respect to price protection and intellectual property, trade and travel restrictions, pandemics, import and export license requirements and restrictions, difficulties in staffing and managing worldwide operations, and accounts receivable collections.

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### **Production and Raw Materials**

Monolithic integrated circuit components are manufactured in a sequence of semiconductor production steps that include wafer fabrication, wafer testing, cutting the wafer into individual chips, or dice, assembly of the dice into packages and electrical testing of the devices in final packaged form. The raw materials used to manufacture these devices include silicon wafers, processing chemicals (including liquefied gases), precious metals and ceramic and plastic used for packaging.

We develop and employ a wide variety of proprietary manufacturing processes that are specifically tailored for use in fabricating high-performance linear, mixed-signal and MEMS ICs. We also use bipolar and CMOS wafer fabrication processes.

Our IC products are fabricated both at our production facilities and by third-party wafer fabricators. Most of our analog products are manufactured in our own wafer fabrication facilities using proprietary processes. Our DSP products, and a portion of our analog products, are manufactured at third-party wafer-fabrication foundries using sub-micron digital CMOS processes. We operate wafer fabrication facilities in Wilmington and Cambridge, Massachusetts and Limerick, Ireland. We also operate test facilities located in the Philippines and use third-party subcontractors for the assembly and testing of our products. On November 9, 2006, we closed our Sunnyvale, California wafer fabrication facility and transferred virtually all of the production of products manufactured there to our facility in Wilmington, Massachusetts.

Capital spending in fiscal 2006 was \$129.3 million, compared with \$85.5 million in fiscal 2005. We currently plan to make capital expenditures of approximately \$175 million in fiscal 2007.

Our products require a wide variety of components and raw materials, most of which we purchase from third-party suppliers. We have multiple sources for many of the components and materials we purchase and incorporate into our products. However, a large portion of our external wafer purchases are from sole-source suppliers, primarily Taiwan Semiconductor Manufacturing Company (TSMC). If these sole-source suppliers are unable or unwilling to manufacture and deliver sufficient quantities of components to us, on the time schedule and of the quality that we require, we may be forced to seek to engage additional or replacement suppliers, which could result in additional expenses and delays in product development or shipment of product to our customers. Although we have experienced shortages of components from time to time, these items have generally been available to us as needed.

### **Backlog**

Backlog at the end of fiscal 2006 was approximately \$390 million, up from approximately \$356 million at the end of fiscal 2005. We define backlog as of a particular date as firm orders with a customer or distributor requested delivery date within thirteen weeks. Backlog is impacted by the tendency of customers to rely on shorter lead times available from suppliers, including us, in periods of depressed demand. In periods of increased demand, there is a tendency towards longer lead times that has the effect of increasing backlog and, in some instances, we may not have manufacturing capacity sufficient to fulfill all orders. As is customary in the semiconductor industry, we allow most orders to be canceled or deliveries delayed by customers without significant penalty. Accordingly, we believe that our backlog at any time should not be used as an indication of our future revenue.

In some of our markets where end-user demand may be particularly volatile and difficult to predict, some customers place orders that require us to manufacture product and have it available for shipment, even though the customer is unwilling to make a binding commitment to purchase all, or even any, of the product. At any given time, this situation could affect a portion of our backlog. As a result, we may incur inventory and manufacturing costs in advance of anticipated sales and are subject to the risk of cancelation of orders leading to a sharp reduction of sales and backlog.

Further, those orders may be for products that meet the customer's unique requirements so that those canceled orders would, in addition, result in an inventory of unsaleable products, resulting in potential inventory write-offs. As a result of lengthy manufacturing cycles, for some of our products that are subject to these uncertainties, the amount of unsaleable product could be substantial.

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**Government Contracts**

We estimate that approximately 3% of our fiscal 2006 revenue was attributable to sales to the U.S. government and government contractors and subcontractors. Our government contract business is predominantly in the form of negotiated, firm fixed-price subcontracts. All such contracts and subcontracts contain standard provisions relating to termination at the election of the United States government.

**Acquisitions, Divestitures and Investments**

An element of our business strategy involves expansion through the acquisition of businesses, assets, products or technologies that allow us to complement our existing product offerings, expand our market coverage, increase our engineering workforce or enhance our technological capabilities. From time to time, we consider acquisitions and divestitures that may strengthen our business.

In the second quarter of fiscal 2006, we completed the sale to Ikanos Communications, Inc. of our DSP-based digital subscriber line (DSL) application-specific integrated circuit (ASIC) and network processor product line.

In the third quarter of fiscal 2006, we completed a transaction with TTPCom Limited (TTPCom), whereby TTPCom transferred to us intellectual property, engineering resources, and related assets associated with the support and customization of TTPCom's GSM/GPRS/EDGE modem software for use on our existing and future generations of SoftFone® baseband processors. As a result, we became the single point of contact for both hardware and software support for our new and existing wireless handset customers.

In the fourth quarter of fiscal 2006, we acquired substantially all of the outstanding stock of privately held Integrant Technologies, Inc., an innovator in the field of high-performance analog circuits designed for reconfigurable radio frequency (RF) signal processing, and a leading supplier of low-power radio tuners that allow mobile communications, computer, and consumer devices to receive digital television (TV) and digital radio broadcasts.

Also in the fourth quarter of fiscal 2006, we acquired privately held AudioAsics A/S, a developer of high-performance, low-power microphone and audio signal conditioning technology resulting in miniature, low-power audio solutions that provide better sound quality in portable consumer and communications products such as MP3 players, wireless cellular phones and PDAs.

**Competition**

We compete with a number of semiconductor companies in markets that are highly competitive. We believe we are one of the largest suppliers of high-performance analog and mixed-signal processing components. Competitors for our analog and DSP products include Broadcom Corporation, Cirrus Logic Inc., Infineon Technologies, Intersil Corporation, Linear Technology Corporation, Maxim Integrated Products, Inc., National Semiconductor Corporation, NXP Semiconductors, ST Microelectronics and Texas Instruments, Inc. Sales of our micromachined products currently consist of acceleration sensors and gyroscopes, and our main competitors in that market are Bosch, Denso Corporation, Freescale Semiconductor, Inc., Panasonic, ST Microelectronics, Systron Donner and VTI Technologies.

We believe that competitive performance in the marketplace for real-world signal processing components depends upon several factors, including technical innovation, product quality and reliability, range of products, product price, customer service and technical support. We believe our technical innovation emphasizing product performance and reliability, supported by our commitment to strong customer service and technical support, enables us to compete in our chosen markets against both foreign and domestic semiconductor manufacturers.

Many other companies offer products that compete with our products, and some have greater financial, manufacturing, technical and marketing resources than we have. Some of our competitors may have better established supply or development relationships with our current and potential customers. Additionally, some formerly independent competitors have been purchased by larger companies. Our competitors also include emerging companies selling specialized products to markets we serve. There can be no assurance that we will be able to compete successfully in the future against existing or new competitors, or that our operating results will not be adversely affected by increased price competition.

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**Environment**

We are committed to protecting the environment and the health and safety of our employees, customers and the public. We endeavor to adhere to the most stringent standards across all of our facilities, to encourage pollution prevention and to strive towards continual improvement. We strive to exceed compliance with regulatory standards in order to achieve a standard of excellence in environmental, health and safety management practices as an integral part of our total quality management system.

Our manufacturing facilities are subject to numerous environmental laws and regulations, particularly with respect to the storage, handling, use, discharge and disposal of certain chemicals, gases and other substances used or produced in the semiconductor manufacturing process. Compliance with these laws and regulations has not had a material impact on our capital expenditures, earnings, financial condition or competitive position. There can be no assurance, however, that current or future environmental laws and regulations will not impose costly requirements upon us. For example, restrictions adopted by the European Union regarding the use of hazardous substances have recently become applicable, requiring us to transition the manufacturing process for over 9,000 of our products. Any failure by us to comply with applicable environmental laws and regulations could result in fines, suspension of production, alteration of fabrication processes and legal liability.

**Employees**

As of October 28, 2006, we employed approximately 9,800 individuals worldwide. Our future success depends in large part on the continued service of our key technical and senior management personnel, and on our ability to continue to attract, retain and motivate qualified employees, particularly those highly-skilled design, process, test and applications engineers involved in the manufacture of existing products and the development of new products and processes. We believe that relations with our employees are good; however, the competition for such personnel is intense, and the loss of key personnel could have a material adverse impact on our results of operations and financial condition.

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**ITEM 1A. RISK FACTORS**

Set forth below and elsewhere in this report and in other documents we file with the SEC are descriptions of the risks and uncertainties that could cause our actual results to differ materially from the results contemplated by the forward-looking statements contained in this report.

*Our future revenue and operating results are difficult to predict and may materially fluctuate.*

Our future revenue and operating results are difficult to predict and may be materially affected by a number of factors, including changes in customer demand for our products and for end products that incorporate our products, the timing of new product announcements or introductions by us, our customers or our competitors, competitive pricing pressures, fluctuations in manufacturing yields, adequate availability of wafers and other raw materials, and manufacturing, assembly and test capacity, the risk that our backlog could decline significantly, the timing, delay or cancellation of significant customer orders and our ability to manage inventory, our ability to hire, retain and motivate adequate numbers of engineers and other qualified employees to meet the demands of our customers, changes in product or customer mix, potential significant litigation-related costs, the effect of adverse changes in economic conditions in the United States and international markets and the effects of public health emergencies, natural disasters, terrorist activities, international conflicts and other events beyond our control. In addition, the semiconductor market has historically been cyclical and subject to significant economic downturns. Our business is subject to rapid technological changes and there can be no assurance, depending on the mix of future business, that products stocked in inventory will not be rendered obsolete before we ship them. As a result of these and other factors, there can be no assurance that we will not experience material fluctuations in future revenue and operating results on a quarterly or annual basis. In addition, if our revenue and operating results do not meet the expectations of securities analysts or investors, the market price of our common stock may decline.

*Long-term contracts are not typical for us and reductions, cancellations or delays in orders for our products could adversely affect our operating results.*

In certain markets where end-user demand may be particularly volatile and difficult to predict, some customers place orders that require us to manufacture product and have it available for shipment, even though the customer is unwilling to make a binding commitment to purchase all, or even any, of the product. At any given time, this situation could affect a portion of our backlog. As a result, we may incur inventory and manufacturing costs in advance of anticipated sales and are subject to the risk of cancellation of orders leading to a sharp reduction of sales and backlog. Further, those orders may be for products that meet the customer's unique requirements so that those canceled orders would, in addition, result in an inventory of unsaleable products, resulting in potential inventory write-offs. As a result of lengthy manufacturing cycles for certain of the products that are subject to these uncertainties, the amount of unsaleable product could be substantial. Reductions, cancellations or delays in orders for our products could adversely affect our operating results.

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

Our success significantly depends on our continued ability to improve our products and develop and market new products. Product development and enhancement is often a complex, time-consuming and costly process, and there can be no assurance that we will be able to develop and introduce new and improved products in a timely or efficient manner or that new and improved products, if developed, will achieve market acceptance. Our products generally must conform to various evolving and sometimes competing industry standards, which may adversely affect our ability to compete in certain markets or require us to incur significant costs. In addition, our customers generally

impose very high quality and reliability standards on our products, which often change and may be difficult or costly to satisfy. Any inability to satisfy such quality standards or comply with industry standards and technical requirements, may adversely affect demand for our products and our results of operations. In addition, our growth is dependent on our continued ability to penetrate new markets where we have limited experience and competition is intense. There can be no assurance that the markets we serve will grow in the future, that our existing and new products will meet the requirements of these markets, that our products will achieve customer acceptance in these markets, that competitors will not force prices to an unacceptably low level or take market share from us, or

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that we can achieve or maintain profits in these markets. Furthermore, a decline in demand in one or several of our end-user markets could have a material adverse effect on the demand for our products and our results of operations. Also, some of our customers in these markets are less established, which could subject us to increased credit risk.

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

Many other companies offer products that compete with our products. Some have greater financial, manufacturing, technical and marketing resources than we have. Some of our competitors may have better established supply or development relationships with our current and potential customers. Additionally, some formerly independent competitors have been purchased by larger companies. Our competitors also include emerging companies selling specialized products in markets we serve. Existing or new competitors may develop products or technologies that more effectively address the demands of our markets with enhanced features and functionality, lower power requirements, greater levels of integration or lower cost. Increased competition in certain markets has resulted in and may continue to result in declining average selling prices, reduced gross margins and loss of market share in such markets. There can be no assurance that we will be able to compete successfully in the future against existing or new competitors, or that our operating results will not be adversely affected by increased price competition.

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

We rely, and plan to continue to rely, on assembly and test subcontractors and on third-party wafer fabricators to supply most of our wafers that can be manufactured using industry-standard submicron processes. This reliance involves several risks, including reduced control over availability, capacity utilization, delivery schedules, manufacturing yields, quality assurance and costs. Additionally, we utilize third-party wafer fabricators as sole-source suppliers, primarily Taiwan Semiconductor Manufacturing Company. These suppliers manufacture components in accordance with our proprietary designs and specifications. We have no written supply agreements with these sole-source suppliers and purchase our custom components through individual purchase orders. In addition, these suppliers often provide manufacturing services to our competitors and therefore periods of increased industry demand may result in capacity constraints. If these sole-source suppliers are unable or unwilling to manufacture and deliver sufficient quantities of components to us on the time schedule and of the quality that we require, we may be forced to seek to engage additional or replacement suppliers, which could result in additional expenses and delays in product development or shipment of product to our customers.

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

The cyclical nature of the semiconductor industry has resulted in sustained and short-term periods when demand for our products has increased or decreased rapidly. During these periods of rapid increases in demand, our available capacity may not be sufficient to satisfy the available demand. In addition, we may not be able to expand our workforce and operations in a sufficiently timely manner, or locate suitable third-party suppliers, to respond effectively to changes in demand for our existing products or to the demand for new products requested by our customers, and our current or future business could be materially and adversely affected. Conversely, if we expand our operations and workforce too rapidly in anticipation of increased demand for our products, and such demand does not materialize at the pace at which we expect, our operating results may be adversely affected. These capacity expansions by us and other semiconductor manufacturers could also lead to overcapacity in our target markets which could lead to price erosion that would adversely impact our operating results.

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

We, and the semiconductor industry generally, expand production facilities and access to third-party foundries in response to periods of increased demand which can cause operating expenses to increase. Should customer demand fail to increase or should the semiconductor industry enter a period of reduced customer demand, our financial position and results of operations could be adversely impacted as a result of increased operating expenses, reduced margins, underutilization of capacity or asset impairment charges.

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*We may be unable to adequately protect our proprietary rights, which may limit our ability to compete effectively.*

Our success depends, in part, on our ability to protect our intellectual property. We primarily rely on patent, copyright, trademark and trade secret laws, as well as nondisclosure agreements and other methods, to protect our proprietary technologies and processes. Despite our efforts to protect our proprietary technologies and processes, it is possible that competitors or other unauthorized third parties may obtain, copy, use or disclose our technologies and processes. Moreover, the laws of foreign countries in which we design, manufacture and market our products may afford little or no effective protection of our proprietary technology.

There can no assurance that the claims allowed in our issued patents will be sufficiently broad to protect our technology. In addition, any of our existing or future patents may be challenged, invalidated or circumvented. As such, any rights granted under these patents may not provide us with meaningful protection. We may not have foreign patents or pending applications corresponding to our U.S. patents and applications. Even if foreign patents are granted, effective enforcement in foreign countries may not be available. If our patents do not adequately protect our technology, our competitors may be able to offer products similar to ours. Our competitors may also be able to develop similar technology independently or design around our patents. Other companies or individuals have obtained patents covering a variety of semiconductor designs and processes, and we might be required to obtain licenses under some of these patents or be precluded from making and selling the infringing products, if such patents are found to be valid. There can be no assurance that we would be able to obtain licenses, if required, upon commercially reasonable terms, or at all.

We generally enter into confidentiality agreements with our employees, consultants and strategic partners. We also try to control access to and distribution of our technologies, documentation and other proprietary information. Despite these efforts, internal or external parties may attempt to copy, disclose, obtain or use our products, services or technology without our authorization. Also, former employees may seek employment with our business partners, customers or competitors, and there can be no assurance that the confidential nature of our proprietary information will be maintained in the course of such future employment.

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

The semiconductor industry is characterized by frequent claims and litigation involving patent and other intellectual property rights, including claims arising under our contractual indemnification of our customers. We have received from time to time, and may receive in the future, claims from third parties asserting that our products or processes infringe their patents or other intellectual property rights. In the event a third party makes a valid intellectual property claim against us and a license is not available to us on commercially reasonable terms, or at all, we could be forced either to redesign or to stop production of products incorporating that intellectual property, and our operating results could be materially and adversely affected. Litigation may be necessary to enforce our patents or other of our intellectual property rights or to defend us against claims of infringement, and this litigation could be costly and divert the attention of our key personnel. See Note 13 in the Notes to our Consolidated Financial Statements contained in Item 8 of this Annual Report on Form 10-K for information concerning certain pending litigation that involves us. An adverse outcome in these matters or other litigation could have a material adverse effect on our consolidated financial position or on our consolidated results of operations or cash flows in the period in which the litigation is resolved.

*If we do not retain our key personnel, our ability to execute our business strategy will be limited.*

Our success depends to a significant extent upon the continued service of our executive officers and key management and technical personnel, particularly our experienced engineers, and on our ability to continue to attract, retain, and motivate qualified personnel. The competition for these employees is intense. The loss of the services of one or more

of our key personnel could have a material adverse effect on our operating results. In addition, there could be a material adverse effect on us should the turnover rates for engineers and other key personnel increase significantly or if we are unable to continue to attract qualified personnel. We do not maintain any key person life insurance policy on any of our officers or employees.

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*To remain competitive we may need to acquire other companies or purchase or license technology from third parties in order to introduce new products and services or enhance our existing products and services.*

An element of our business strategy involves expansion through the acquisitions of businesses, assets, products or technologies that allow us to complement our existing product offerings, expand our market coverage, increase our engineering workforce or enhance our technological capabilities. We may not be able to find businesses that have the technology or resources we need and, if we find such businesses, may not be able to purchase or license the technology or resources on commercially favorable terms or at all. Acquisitions and technology licenses are difficult to identify and complete for a number of reasons, including the cost of potential transactions, competition among prospective buyers and licensees and the need for regulatory approvals. In order to finance a potential transaction, we may need to raise additional funds by selling our stock or borrowing money. We may not be able to find financing on favorable terms, and the sale of our stock may result in the dilution of our existing shareholders or the issuance of securities with rights that are superior to the rights of our common stockholders. Acquisitions also involve a number of risks, including:

difficulty integrating acquired technologies, operations and personnel with our existing businesses;

diversion of management attention in connection with both negotiating the acquisitions and integrating the assets;

strain on managerial and operational resources as management tries to oversee larger operations;

the future funding requirements for acquired companies, which may be significant;

potential loss of key employees;

exposure to unforeseen liabilities of acquired companies; and

increased risk of costly and time-consuming litigation.

If we are unable to successfully address these risks, we may not realize some or all of the expected benefits of the acquisition, which may have an adverse effect on our business and results of operations.

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

We, and many companies in the semiconductor industry, rely on internal manufacturing capacity, wafer fabrication foundries and other sub-contractors in geologically unstable locations around the world. This reliance involves risks associated with the impact of earthquakes on us and the semiconductor industry, including temporary loss of capacity, availability and cost of key raw materials and equipment and availability of key services including transport. Any prolonged inability to utilize one of our manufacturing facilities, or those of our subcontractors or third party wafer-fabrication foundries, as a result of fire, natural disaster, unavailability of electric power or otherwise, would have a material adverse effect on our results of operations and financial condition.

*We are exposed to business, economic, political and other risks through our significant worldwide operations.*

During fiscal 2006, approximately 75% of our revenue was derived from customers in international markets. Although we engage in hedging transactions to reduce our exposure to currency exchange rate fluctuations, there can be no assurance that our competitive position will not be adversely affected by changes in the exchange rate of the United

States dollar against other currencies. Potential interest rate increases, particularly in the United States and China, as well as high energy costs could have an adverse impact on industrial and consumer spending patterns and could adversely impact demand for our products. We have manufacturing facilities outside the United States in Ireland and the Philippines. In addition to being exposed to the ongoing economic cycles in the semiconductor industry, we are also subject to the economic and political risks inherent in international operations and their impact on the United States economy in general, including the risks associated with ongoing uncertainties and political and economic instability in many countries around the world as well as the economic disruption from acts of terrorism, and the response to them by the United States and its allies. Other business risks associated with international operations include increased managerial complexities, air transportation disruptions, expropriation, currency

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controls, currency exchange rate movement, additional costs related to foreign taxes, tariffs and freight rate increases, exposure to different business practices and legal standards, particularly with respect to price protection and intellectual property, trade and travel restrictions, pandemics, import and export license requirements and restrictions, difficulties in staffing and managing worldwide operations, and accounts receivable collections.

*Our future operating results are dependent on the performance of independent distributors and sales representatives.*

A significant portion of our sales are through independent distributors that are not under our control. These independent distributors generally represent product lines offered by several companies and thus could reduce their sales efforts applied to our products or terminate their representation of us. We generally do not require letters of credit from our distributors and are not protected against accounts receivable default or bankruptcy by these distributors. Our inability to collect open accounts receivable could adversely affect our results of operations. Termination of a significant distributor, whether at our initiative or the distributor's initiative, could disrupt our current business. If we are unable to find suitable replacements in the event of terminations by significant distributors or sales representatives, our operating results could be adversely affected.

*Our manufacturing processes are highly complex and may be interrupted.*

We have manufacturing processes that utilize a substantial amount of technology as the fabrication of integrated circuits is a highly complex and precise process. Minute impurities, contaminants in the manufacturing environment, difficulties in the fabrication process, defects in the masks used in the wafer manufacturing process, manufacturing equipment failures, wafer breakage or other factors can cause a substantial percentage of wafers to be rejected or numerous dice on each wafer to be nonfunctional. While we have significant expertise in semiconductor manufacturing, it is possible that some processes could become unstable. This instability could result in manufacturing delays and product shortages, which could have a material adverse effect on our financial position or results of operations.

*Our stock price may be volatile.*

The market price of our common stock has been volatile in the past and may be volatile in the future, as it may be significantly affected by the following factors:

actual or anticipated fluctuations in our revenue and operating results;

changes in financial estimates by securities analysts or our failure to perform in line with such estimates;

changes in market valuations of other semiconductor companies;

announcements by us or our competitors of significant new products, technical innovations, acquisitions or dispositions, litigation or capital commitments; and

departures of key personnel.

The stock market has historically experienced volatility, especially within the semiconductor industry, that often has been unrelated to the performance of particular companies. These market fluctuations may cause our stock price to fall regardless of our operating results.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

Not applicable.

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Our corporate headquarters is located in Norwood, Massachusetts. Manufacturing and other operations are conducted in several locations worldwide. The following tables provide certain information about our principal general offices and manufacturing facilities:

| <b>Principal Properties Owned:</b> |                                                                                    | <b>Use</b> | <b>Floor Space</b> |  |
|------------------------------------|------------------------------------------------------------------------------------|------------|--------------------|--|
| Wilmington, MA                     | Wafer fabrication, testing, engineering, marketing and administrative offices      |            | 586,200 sq. ft.    |  |
| Cavite, Philippines                | Wafer probe and testing, warehouse, engineering and administrative offices         |            | 465,900 sq. ft.    |  |
| Limerick, Ireland                  | Wafer fabrication, wafer probe and testing, engineering and administrative offices |            | 405,000 sq. ft.    |  |
| Westwood, MA                       | Engineering, administrative offices and warehouse                                  |            | 100,500 sq. ft.    |  |
| Greensboro, NC                     | Product testing, engineering and administrative offices                            |            | 98,700 sq. ft.     |  |
| San Jose, CA                       | Engineering, administrative offices                                                |            | 76,000 sq. ft.     |  |
| Manila, Philippines                | Components assembly and testing, engineering and administrative offices            |            | 74,000 sq. ft.     |  |

  

| <b>Principal Properties Leased:</b> | <b>Use</b>                                                                                           | <b>Floor Space</b> | <b>Lease Expiration (fiscal year)</b> | <b>Renewals</b>     |
|-------------------------------------|------------------------------------------------------------------------------------------------------|--------------------|---------------------------------------|---------------------|
| Norwood, MA                         | Corporate headquarters, engineering, components testing, sales and marketing offices                 | 130,000 sq. ft.    | 2007                                  | 3, five-yr. periods |
| Cambridge, MA                       | Wafer fabrication, components testing and assembly engineering, marketing and administrative offices | 117,000 sq. ft.    | 2011                                  | None                |
| Sunnyvale, CA(a)                    | Wafer fabrication                                                                                    | 63,100 sq. ft.     | 2010                                  | 1, five-yr. period  |
| Santa Clara, CA                     | Engineering and administrative offices                                                               | 43,500 sq. ft.     | 2007                                  | 2, five-yr. periods |
| Greensboro, NC                      | Engineering and administrative offices                                                               | 41,900 sq. ft.     | 2008                                  | 1, three-yr. period |

- (a) We ceased production at this wafer fabrication facility on November 9, 2006. For additional information, see Note 5 in the Notes to our Consolidated Financial Statements contained in Item 8 of this Annual Report on Form 10-K.

In addition to the principal leased properties listed in the above table, we also lease sales offices and other premises at 23 locations in the United States and 35 locations overseas under operating lease agreements. These leases expire at various dates through the year 2020. We do not anticipate experiencing significant difficulty in retaining occupancy of any of our manufacturing, office or sales facilities through lease renewals prior to expiration or through month-to-month occupancy, or in replacing them with equivalent facilities. For information concerning our obligations under all operating leases see Note 12 in the Notes to our Consolidated Financial Statements contained in Item 8 of this Annual Report on Form 10-K.

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**ITEM 3. LEGAL PROCEEDINGS**

**Tentative Settlement of the SEC's Previously Announced Stock Option Investigation**

In the Company's Form 10-K filing dated November 30, 2004, the Company disclosed that the Securities and Exchange Commission (SEC) had initiated an inquiry into its stock option granting practices, focusing on options that were granted shortly before the issuance of favorable financial results. On November 15, 2005, the Company announced that it had reached a tentative settlement with the SEC.

Since receiving notice of this inquiry, the Company has cooperated with the SEC. The Company and its President and CEO, Mr. Jerald G. Fishman, have made an offer of settlement to the Staff of the SEC, which is subject to agreement regarding the specific language of the SEC's administrative order and other settlement documents. The SEC Staff has decided to recommend the offer of settlement to the Commission. A final settlement is subject to review and approval by the Commission.

The contemplated settlement addresses two separate issues. The first issue concerns the Company's disclosure regarding grants of options to employees and directors prior to the release of favorable financial results. Specifically, the issue relates to options granted to employees (including officers) of the Company on November 30, 1999 and to employees (including officers) and directors of the Company on November 10, 2000. The SEC settlement would conclude that the Company should have made disclosures in its proxy filings to the effect that the Company priced these stock options prior to releasing favorable financial results.

The second issue addressed by the tentative settlement concerns the grant dates for options granted to employees (including officers) in 1998 and 1999, and the grant date for options granted to employees (including officers) and directors in 2001. Specifically, the settlement would conclude that the appropriate grant date for the September 4, 1998 options should have been September 8th (which is one trading day later than the date that was used to price the options); the appropriate grant date for the November 30, 1999 options should have been November 29th (which is one trading day earlier than the date that was used); and the appropriate grant date for the July 18, 2001 options should have been July 26th (which is five trading days after the original date).

In connection with the contemplated settlement, the Company would consent to a cease-and-desist order under Section 10(b) of the Securities Exchange Act and Rule 10b-5 thereunder, would pay a civil money penalty of \$3 million, and would reprice options granted to Mr. Fishman and other directors in certain years. Options granted to all other employees would be excluded from the repricing. Mr. Fishman would consent to a cease-and-desist order under Sections 17(a)(2) and (3) of the Securities Act, would pay a civil money penalty of \$1 million, and would make a disgorgement payment with respect to options granted in certain years. With the exception of options granted in 1998, Mr. Fishman has not exercised or sold any of the options identified in this matter. The Company and Mr. Fishman would settle this matter without admitting or denying the Commission's findings.

The Company has determined that no restatement of its historical financial results would be necessary due to the proposed settlement, because the effects of using revised measurement dates for options granted in 1998, 1999 and 2001 are not material to any of the fiscal years 1998 through 2005, based on the materiality guidelines contained in SAB 99. If a stock-based compensation charge had been taken as a result of the revised measurement dates for these option grants to all employees (including officers) and directors, the net income of the Company for fiscal years 1998 through 2005 would have been reduced by \$21.8 million in total. During this period, the Company earned cumulative net income of over \$2.5 billion. There would be no impact on revenue, cash flow from operations, or shareholders equity as a result of using the revised measurement dates. The impact on net income in individual fiscal years would have been as follows: fiscal 1998 (\$0.2 million), fiscal 1999 (\$1.4 million), fiscal 2000 (\$1.8 million), fiscal 2001

(\$3.7 million), fiscal 2002 (\$8.1 million), fiscal 2003 (\$6.1 million), fiscal 2004 (\$0.5 million).

**Other Legal Proceedings**

On November 6, 2003, Enron Corporation commenced a proceeding in the United States Bankruptcy Court for the Southern District of New York. On December 1, 2003, Enron filed an amended complaint to add the Company as a defendant in such proceeding. The amended complaint alleged that transfers made by Enron in satisfaction of obligations it had under commercial paper were recoverable as preferential transfers and fraudulent transfers and

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subject to avoidance under the United States Bankruptcy Code. It was alleged that payments made in premature satisfaction of obligations under commercial paper totaling approximately \$20 million were recoverable from J.P. Morgan Securities, Inc., Fleet Capital Markets, Fleet National Bank and/or the Company. The Company sold \$20 million of Enron commercial paper to Fleet and did not enter into any direct transactions with Enron. The Company has reached a settlement with Enron, pursuant to which we contributed \$2.3 million towards a settlement of claims brought by Enron against both the Company and Bank of America (as successor to Fleet Capital Markets and Fleet National Bank). The settlement was submitted to and approved by the Bankruptcy Court. In accordance with the terms of the settlement, a stipulation of dismissal of all claims against the Company with prejudice has been executed by Enron, Bank of America and the Company and was filed with the Bankruptcy Court on November 9, 2006. The Bankruptcy Court entered the stipulation of dismissal on November 13, 2006.

On June 14, 2005, Biax Corporation filed its first amended complaint for patent infringement in the United States District Court for the Eastern District of Texas against the Company and Intel Corporation, alleging that the Company infringed three patents owned by Biax relating to parallel processors. Prior to the filing of the first amended complaint, the Company was unaware of Biax or this action. The first amended complaint seeks injunctive relief, unspecified damages with interest, as well as Biax's costs, expenses and fees. On August 3, 2005, the Company filed an answer and counterclaimed against Biax. In the counterclaim, the Company seeks rulings that the patents are not infringed, the patents are invalid and the patents are unenforceable. On November 7, 2005, Biax filed a second amended complaint alleging that the Company infringed two additional patents. The case is currently in the discovery phase. The Company intends to vigorously defend against these allegations. The Company is unable at this time to predict the outcome of this litigation; however, the Company believes that the final disposition of this matter will not have a material adverse effect on the Company or its financial position.

On or about May 5, 2006, Mr. Gregory Bender filed a complaint for patent infringement in the U.S. District Court for the Eastern District of Texas against the Company. Prior to the filing of the complaint, the Company was unaware of Mr. Bender or this action. In his complaint, Mr. Bender alleges that certain of the Company's amplifier products infringe a patent Mr. Bender owns. He seeks unspecified damages as well as a permanent injunction enjoining the Company from infringing his patent. Mr. Bender has served his complaint on the Company and the Company has filed an answer. The Company intends to vigorously defend against these allegations. The Company cannot predict the outcome of this matter, but believes that the disposition of the matter will not have a material adverse effect on the Company or its financial position.

In May 2006, the Company received a demand from a purported shareholder with respect to certain grants of options made to directors and officers of the Company during the years 1998, 1999 and 2001. That demand seeks, among other things, the commencement of an action by the directors of the Company on behalf of the Company against those directors and officers for breach of fiduciary duties arising from the granting of the options. A special committee of the Board of Directors of the Company was formed to review the allegations contained in the demand and to respond appropriately. After reviewing the facts underlying the allegations, the special committee decided to reject the purported shareholder's demand. The Company does not know whether the purported shareholder will take further action.

In May 2006, the Company received a document subpoena from the U.S. Attorney for the Southern District of New York requesting records from 2000 to the present relating to the Company's granting of stock options. The Company believes that the options at issue in this matter are the same option grants which have been the subject of investigation by the SEC. The Company is cooperating with the office of the U.S. Attorney in connection with this subpoena. The Company cannot predict the outcome of this matter, but believes the disposition of the matter will not have a material adverse effect on the Company or its financial position.

On June 12, 2006, a purported derivative complaint was filed in the United States District Court for the District of Massachusetts naming the Company as nominal defendant and also naming as defendants certain officers and directors of the Company. The complaint alleged purported violations of state and federal law in connection with the Company's option granting practices during the years 1998, 1999 and 2001, including violation of Section 14(a) of the Securities Exchange Act of 1934, breaches of fiduciary duties of care, loyalty and good faith, gross mismanagement, waste of corporate assets, and unjust enrichment. The complaint sought monetary damages in unspecified amounts, as well as equitable and injunctive relief. On October 12, 2006, the United States District Court for the

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District of Massachusetts dismissed the plaintiff's complaint with prejudice and without leave to amend. The Company does not know whether the plaintiff will appeal the court's decision or otherwise pursue the action further.

In August 2006, the Company received a demand from a purported shareholder to inspect the Company's books and records relating to certain grants of options made to directors and officers of the Company at diverse times. On September 8, 2006, the Company responded to the letter and indicated that the purported shareholder was not entitled to the documents sought in the demand. The Company does not know whether the purported shareholder will take further action.

On October 13, 2006, a purported class action complaint was filed in the United States District Court for the District of Massachusetts on behalf of participants in the Company's Investment Partnership Plan from October 5, 2000 to the present. The complaint named as defendants the Company, certain officers and directors, and the Company's Investment Partnership Plan Administration Committee. The complaint alleges purported violations of federal law in connection with the Company's option granting practices during the years 1998, 1999, 2000, and 2001, including breaches of fiduciary duties owed to participants and beneficiaries of the Company's Investment Partnership Plan under the Employee Retirement Income Security Act. The complaint seeks unspecified monetary damages, as well as equitable and injunctive relief. The Company intends to vigorously defend against these allegations. Although the Company believes it has meritorious defenses to the asserted claims, it is unable at this time to predict the outcome of this proceeding.

From time to time as a normal incidence of the nature of the Company's business, various claims, charges and litigation are asserted or commenced against the Company arising from, or related to, contractual matters, patents, trademarks, personal injury, environmental matters, product liability, insurance coverage and personnel and employment disputes. As to such claims and litigation the Company can give no assurance that it will prevail.

While the Company does not believe that any of the matters described above will have a material adverse effect on the Company's financial position, an adverse outcome of any of these matters is possible and could have a material adverse effect on the Company's consolidated results of operations or cash flows in the quarter or annual period in which one or more of these matters are resolved.

**Table of Contents****ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

No matters were submitted to a vote of our security holders during the last quarter of the fiscal year ended October 28, 2006.

**EXECUTIVE OFFICERS OF THE COMPANY**

The following table sets forth (i) the name, age and position of each of our executive officers and (ii) the business experience of each person named in the table during at least the past five years. There is no family relationship among any of the executive officers.

| <b>Executive Officer</b> | <b>Age</b> | <b>Position(s)</b>                                                  | <b>Business Experience</b>                                                                                                                                                                                                                                                                                                                                                                                              |
|--------------------------|------------|---------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Ray Stata                | 72         | Chairman of the Board                                               | Chairman of the Board since 1973; Chief Executive Officer from 1973 to November 1996; President from 1971 to November 1991.                                                                                                                                                                                                                                                                                             |
| Jerald G. Fishman        | 61         | President, Chief Executive Officer and Director                     | Chief Executive Officer since November 1996; President and Director since November 1991; Executive Vice President from 1988 to November 1991; Group Vice President Components from 1982 to 1988.                                                                                                                                                                                                                        |
| Samuel H. Fuller         | 60         | Vice President, Research and Development                            | Vice President, Research and Development since March 1998; Vice President of Research and Chief Scientist of Digital Equipment Corp. from 1983 to 1998.                                                                                                                                                                                                                                                                 |
| William N. Giudice       | 52         | Vice President and General Manager, Micromachined Products Division | Vice President and General Manager, Micromachined Products Division since January 2003; President, CEO and Chairman of the Board of Telephotronics Inc., an optical components company, from March 2001 to 2003; Vice President and General Manager of Conexant Systems Inc. from March 2000 to March 2001; Co-founder, CEO, President, and Chairman of the Board of Maker Communications Inc. from 1994 to March 2000. |
| Robert R. Marshall       | 52         | Vice President, Worldwide Manufacturing                             | Vice President, Worldwide Manufacturing since February 1994; Vice President, Manufacturing, Limerick Site, Analog Devices, B.V. Limerick, Ireland from November 1991 to February 1994; Plant Manager,                                                                                                                                                                                                                   |

|                   |    |           |                                                                                                                                                                                                                                                                                                           |
|-------------------|----|-----------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| William A. Martin | 47 | Treasurer | <p>Analog Devices, B.V. Limerick, Ireland from January 1991 to November 1991.</p> <p>Treasurer since March 1993; Assistant Treasurer from October 1991 to March 1993; Manager of Treasury Finance from March 1987 to October 1991; Manager of International Treasury from October 1985 to March 1987.</p> |
|-------------------|----|-----------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

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| <b>Executive Officer</b> | <b>Age</b> | <b>Position(s)</b>                                  | <b>Business Experience</b>                                                                                                                                                                                                                                                                                                                                          |
|--------------------------|------------|-----------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| William Matson           | 47         | Vice President, Human Resources                     | Vice President, Human Resources since November 2006; Chief Human Resource Officer of Lenevo, an international computer manufacturer, from January 2005 to June 2006; General Manager of IBM Business Transformation Outsourcing from September 2003 to April 2005; Vice President, Human Resources of IBM Asia Pacific Region from December 1999 to September 2003. |
| Robert McAdam            | 56         | Vice President, Analog Semiconductor Components     | Vice President and General Manager, Analog Semiconductor Components since February 1994; Vice President and General Manager, Analog Devices, B.V. Limerick, Ireland from January 1991 to February 1994; Product Line Manager, Analog Devices, B.V. Limerick, Ireland from October 1988 to January 1991.                                                             |
| Brian P. McAloon         | 56         | Vice President, DSP and Systems Products Group      | Vice President, DSP and Systems Products Group since March 2001; Vice President, Sales from May 1992 to March 2001; Vice President, Sales and Marketing Europe and Southeast Asia from 1990 to 1992; General Manager, Analog Devices, B.V. Limerick, Ireland from 1987 to 1990.                                                                                     |
| Joseph E. McDonough      | 59         | Vice President, Finance and Chief Financial Officer | Vice President, Finance and Chief Financial Officer since November 1991; Vice President since 1988 and Treasurer from 1985 to March 1993; Director of Taxes from 1983 to 1985.                                                                                                                                                                                      |
| Vincent Roche            | 46         | Vice President, Worldwide Sales                     | Vice President, Worldwide Sales since March 2001; Vice President and General Manager, Silicon Valley Business Units and Computer & Networking from 1999 to March 2001; Product Line Director from 1995 to 1999; Product Marketing Manager from 1988 to 1995.                                                                                                        |
| Margaret K. Seif         | 45         | Vice President, General Counsel and Secretary       | Vice President, General Counsel and Secretary since January 2006; Senior Vice President, General Counsel and Secretary of RSA Security Inc. from January 2000 to November 2005; Vice                                                                                                                                                                                |

President, General Counsel and  
Secretary of RSA Security Inc. from  
June 1998 to January 2000.

Table of Contents**PART II****ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

Our common stock is listed on the New York Stock Exchange under the symbol ADI. The tables below set forth the high and low sales prices per share of our common stock on the New York Stock Exchange and the dividends declared for each quarterly period within our two most recent fiscal years.

| Period         | Fiscal 2006 |          | Fiscal 2005 |          |
|----------------|-------------|----------|-------------|----------|
|                | High        | Low      | High        | Low      |
| First Quarter  | \$ 40.40    | \$ 34.18 | \$ 41.66    | \$ 33.95 |
| Second Quarter | \$ 41.48    | \$ 36.61 | \$ 39.48    | \$ 32.65 |
| Third Quarter  | \$ 37.96    | \$ 29.89 | \$ 41.40    | \$ 33.50 |
| Fourth Quarter | \$ 33.24    | \$ 26.07 | \$ 41.21    | \$ 31.71 |

**Dividends Declared Per Outstanding Share of Common Stock**

| Period         | Fiscal 2006 | Fiscal 2005 |
|----------------|-------------|-------------|
| First Quarter  | \$ 0.12     | \$ 0.06     |
| Second Quarter | \$ 0.12     | \$ 0.06     |
| Third Quarter  | \$ 0.16     | \$ 0.10     |
| Fourth Quarter | \$ 0.16     | \$ 0.10     |

During the first quarter of fiscal 2007, on November 13, 2006, our Board of Directors declared a cash dividend of \$0.16 per outstanding share of common stock. The dividend will be paid on December 13, 2006 to all shareholders of record at the close of business on November 24, 2006.

Information regarding the Company's equity compensation plans and the securities authorized for issuance thereunder is set forth in Item 12 below.

**Issuer Purchases of Equity Securities**

| Period | Total Number of<br>Shares<br>Purchased | Average Price<br>Paid<br>Per Share(a) | Total Number of<br>Shares<br>Purchased as Part<br>of | Approximate Dollar<br>Value of Shares that<br>May Yet Be<br>Purchased |
|--------|----------------------------------------|---------------------------------------|------------------------------------------------------|-----------------------------------------------------------------------|
|        |                                        |                                       | Publicly Announced<br>Plans or<br>Programs(b)        | Under the Plans or<br>Programs                                        |

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|                                                |            |    |       |            |    |             |
|------------------------------------------------|------------|----|-------|------------|----|-------------|
| July 30, 2006 through<br>August 26, 2006       | 4,074,249  | \$ | 29.86 | 4,074,249  | \$ | 547,793,311 |
| August 27, 2006 through<br>September 23, 2006  | 4,146,695  | \$ | 30.05 | 4,146,695  | \$ | 423,192,897 |
| September 24, 2006<br>through October 28, 2006 | 3,687,044  | \$ | 30.04 | 3,687,044  | \$ | 312,442,511 |
| Total                                          | 11,907,988 | \$ | 29.98 | 11,907,988 | \$ | 312,442,511 |

- (a) The average price paid per share of stock repurchased under the stock repurchase program includes the commissions paid to the brokers.
- (b) Repurchased pursuant to the stock repurchase program publicly announced on August 12, 2004, as amended on May 11, 2005, under which our Board of Directors authorized the repurchase of up to an aggregate of \$1 billion of our common stock. On March 14, 2006, our Board of Directors authorized the repurchase by us of an additional \$1 billion of our common stock, increasing the total amount of our common stock we can repurchase from \$1 billion to \$2 billion of our common stock. Under the repurchase program, we may repurchase outstanding shares of our common stock from time to time in the open market and through privately negotiated

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transactions. Unless terminated earlier by resolution of our Board of Directors, the repurchase program will expire when we have repurchased all shares authorized for repurchase under the repurchase program.

The number of holders of record of our common stock at October 27, 2006 was 3,787. This number does not include shareholders for whom shares are held in a nominee or street name. On October 27, 2006, the last reported sales price of our common stock on the New York Stock Exchange was \$31.13 per share.

**ITEM 6. SELECTED FINANCIAL DATA**

| <b>(thousands except per share amounts)</b>                     | <b>2006</b>  | <b>2005</b>  | <b>2004</b>  | <b>2003</b>  | <b>2002</b>  |
|-----------------------------------------------------------------|--------------|--------------|--------------|--------------|--------------|
| Statement of Operations data:                                   |              |              |              |              |              |
| Net sales                                                       | \$ 2,573,176 | \$ 2,388,808 | \$ 2,633,800 | \$ 2,047,268 | \$ 1,707,508 |
| Net income*                                                     | 549,482      | 414,787      | 570,738      | 298,281      | 105,299      |
| Net income per share*:                                          |              |              |              |              |              |
| Basic                                                           | 1.53         | 1.12         | 1.52         | 0.82         | 0.29         |
| Diluted                                                         | 1.48         | 1.08         | 1.45         | 0.78         | 0.28         |
| Dividends declared per common share                             | 0.56         | 0.32         | 0.20         |              |              |
| Balance Sheet data:                                             |              |              |              |              |              |
| Total assets                                                    | \$ 3,986,851 | \$ 4,583,211 | \$ 4,723,271 | \$ 4,097,877 | \$ 4,985,554 |
| Long-term debt and non-current obligations under capital leases |              |              |              |              | 1,274,487    |

\* Acquisition-related goodwill is no longer amortized effective in fiscal 2003, in accordance with SFAS 142. The Company includes the expense associated with stock options in the statement of income effective in fiscal 2006 upon the adoption of SFAS 123R.

**Table of Contents****ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (all tabular amounts in thousands except per share amounts)**

This Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements regarding future events and our future results that are subject to the safe harbors created under the Securities Act of 1933 (the "Securities Act") and the Securities Exchange Act of 1934 (the "Exchange Act"). These statements are based on current expectations, estimates, forecasts, and projections about the industries in which we operate and the beliefs and assumptions of our management. Words such as "expects," "anticipates," "targets," "goals," "projects," "intends," "plans," "believes," "seeks," "estimates," "continues," "may," variations of such words and similar are intended to identify such forward-looking statements. In addition, any statements that refer to projections of our future financial performance, our anticipated growth and trends in our businesses, and other characterizations of future events or circumstances are forward-looking statements. Readers are cautioned that these forward-looking statements are only predictions and are subject to risks, uncertainties, and assumptions that are difficult to predict, including those identified in Part I, Item 1A. Risk Factors and elsewhere in our Annual Report on Form 10-K. Therefore, actual results may differ materially and adversely from those expressed in any forward-looking statements. We undertake no obligation to revise or update any forward-looking statements for any reason.

**Results of Operations***Overview*

|                                | <b>2006</b>  | <b>Fiscal Year<br/>2005</b> | <b>2004</b>  |
|--------------------------------|--------------|-----------------------------|--------------|
| Net Sales                      | \$ 2,573,176 | \$ 2,388,808                | \$ 2,633,800 |
| Gross Margin %                 | 58.5%        | 57.9%                       | 59.0%        |
| Net Income                     | \$ 549,482   | \$ 414,787                  | \$ 570,738   |
| Net Income as a % of Net Sales | 21.4%        | 17.4%                       | 21.7%        |
| Diluted EPS                    | \$ 1.48      | \$ 1.08                     | \$ 1.45      |

Net sales increased \$184.4 million, or 8% in fiscal 2006, from the amount recorded in fiscal 2005. The increase in net sales in fiscal 2006 was offset by the impact of a \$41 million decrease in sales in fiscal 2006 as compared to fiscal 2005 as a result of the loss of sales from our DSP-based DSL ASIC and network processor product line that we sold in the second quarter of fiscal 2006. Net sales declined \$245 million, or 9%, in fiscal 2005 from fiscal 2004.

*Revenue Trends by End Market*

The categorization of sales by end market is determined using a variety of data points including the technical characteristics of the product, the sold to customer information, the ship to customer information and the end customer product or application into which our product will be incorporated. As data systems for capturing and tracking this data evolve and improve, the categorization of products by end market can vary over time and when

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this occurs we reclassify sales by end market for prior periods. Such reclassifications typically do not materially change the sizing, or the underlying trends of results within each end market.

|                | 2006         | Fiscal Year<br>2005 | 2004         |
|----------------|--------------|---------------------|--------------|
| Industrial     | \$ 1,083,602 | \$ 939,020          | \$ 950,659   |
| % Total sales  | 42%          | 39%                 | 36%          |
| Y-Y            | 15%          | (1)%                | 32%          |
| Computer       | \$ 298,844   | \$ 332,062          | \$ 374,362   |
| % Total sales  | 12%          | 14%                 | 14%          |
| Y-Y            | (10)%        | (11)%               | 14%          |
| Communications | \$ 748,176   | \$ 735,743          | \$ 959,872   |
| % Total sales  | 29%          | 31%                 | 37%          |
| Y-Y            | 2%           | (23)%               | 30%          |
| Consumer       | \$ 442,554   | \$ 381,983          | \$ 348,907   |
| % Total sales  | 17%          | 16%                 | 13%          |
| Y-Y            | 16%          | 9%                  | 34%          |
| Total ADI      | \$ 2,573,176 | \$ 2,388,808        | \$ 2,633,800 |
| % Total sales  | 100%         | 100%                | 100%         |
| Y-Y            | 8%           | (9)%                | 29%          |

**Industrial** Revenue from products sold into the industrial end market (which includes factory automation, scientific and medical instrumentation, semiconductor automatic test equipment (ATE), defense electronics and automotive applications) increased 15% in fiscal 2006 as compared to fiscal 2005. The increase reflects a broad based increase in demand for our products across a wide range of customers in this end market. The industrial end market represented approximately 42% of our total revenue in fiscal 2006. Sales to customers in the industrial end market decreased 1% from fiscal 2004 to fiscal 2005 as a result of a decline in revenues from our customers in the automatic test equipment market in the first half of fiscal 2005. The industrial end market represented approximately 39% and 36% of our total revenue in fiscal years 2005 and 2004, respectively.

**Computer** Revenue from products sold into the computer end market declined 10% in fiscal 2006 as compared to fiscal 2005. The decline was primarily the result of refocusing our power management portfolio, lower sales of our personal computer audio codecs and an overall slow down in the personal computer market. The computer end market represented approximately 12% of our total revenue in fiscal 2006. Revenue from products sold into the computer end market decreased 11% in fiscal 2005 as compared to fiscal 2004. The computer end market represented approximately 14% of our total revenue in fiscal years 2005 and 2004.

**Communications** Revenue from products sold into the communications end market increased 2% in fiscal 2006 compared to fiscal 2005 as a result of an increase in sales of our products used in basestations. These increases were offset by decreases in wireless handset revenue and decreases in sales to networking customers. The sales decline attributable to networking customers was approximately \$41 million and was the result of the loss of sales from our DSP-based DSL ASIC and network processor product line, which we sold in the second quarter of fiscal 2006. The communications end market represented approximately 29% of our total revenue in fiscal 2006. Revenue from products sold into the communications end market declined 23% in fiscal 2005 compared to fiscal 2004. The decline was primarily the result of a significant decline in revenues from wireless handset customers in fiscal 2005. The communications end market represented approximately 31% and 37% of our total revenue in fiscal years 2005 and 2004, respectively.

*Consumer* Revenue from products sold into the consumer end market increased 16% in fiscal 2006 as compared to fiscal 2005. The increase was primarily the result of the success of our products in digital home applications and to a lesser extent in digital cameras and a broad array of audio and video applications. The consumer end market represented approximately 17% of our total revenue in fiscal 2006. Revenue from sales in the consumer end market increased 9% in fiscal 2005 as compared to fiscal 2004. The consumer end market represented approximately 16% and 13% of our total revenue in fiscal years 2005 and 2004, respectively.

**Table of Contents***Revenue Trends by Product*

The following table summarizes sales trends by product categories showing what proportion of our total sales are represented by each product category as well as the annual sequential growth rates for each product category. The categorization of our products into broad categories is based on the characteristics of the individual products, the specification of the products and in some cases the specific uses that certain products have within applications. The categorization of products into categories is therefore subject to judgment in some cases and can vary over time. In instances where products move between product categories we reclassify the amounts in the product categories for all prior periods. Such reclassifications typically do not materially change the sizing, or the underlying trends of results within each product category.

|                                                        | <b>Fiscal Year</b> |              |              |
|--------------------------------------------------------|--------------------|--------------|--------------|
|                                                        | <b>2006</b>        | <b>2005</b>  | <b>2004</b>  |
| Converters                                             | \$ 1,023,499       | \$ 927,720   | \$ 884,421   |
| % Total sales                                          | 40%                | 39%          | 33%          |
| Y-Y                                                    | 10%                | 5%           | 33%          |
| Amplifiers                                             | \$ 532,050         | \$ 445,734   | \$ 467,223   |
| % Total sales                                          | 21%                | 19%          | 18%          |
| Y-Y                                                    | 19%                | (5)%         | 26%          |
| Power management & reference                           | \$ 219,651         | \$ 214,160   | \$ 264,205   |
| % Total sales                                          | 8%                 | 9%           | 10%          |
| Y-Y                                                    | 3%                 | (19)%        | 9%           |
| Other analog                                           | \$ 301,633         | \$ 242,805   | \$ 285,588   |
| % Total sales                                          | 12%                | 10%          | 11%          |
| Y-Y                                                    | 24%                | (15)%        | 47%          |
| Total analog products                                  | \$ 2,076,833       | \$ 1,830,419 | \$ 1,901,437 |
| % Total sales                                          | 81%                | 77%          | 72%          |
| Y-Y                                                    | 13%                | (4)%         | 29%          |
| General purpose DSP                                    | \$ 205,483         | \$ 186,660   | \$ 175,302   |
| % Total sales                                          | 8%                 | 8%           | 7%           |
| Y-Y                                                    | 10%                | 6%           | 10%          |
| DSP-based DSL ASIC and Network Processor Product Line* | \$ 14,500          | \$ 54,896    | \$ 56,118    |
| % Total sales                                          | 1%                 | 2%           | 2%           |
| Y-Y                                                    | (74)%              | (2)%         | (13)%        |
| Wireless Chipsets                                      | \$ 238,698         | \$ 266,586   | \$ 432,638   |
| % Total sales                                          | 9%                 | 11%          | 16%          |
| Y-Y                                                    | (10)%              | (38)%        | 56%          |
| Other DSP                                              | \$ 37,662          | \$ 50,247    | \$ 68,305    |
| % Total sales                                          | 1%                 | 2%           | 3%           |
| Y-Y                                                    | (25)%              | (26)%        | (10)%        |
| Total DSP products                                     | \$ 496,343         | \$ 558,389   | \$ 732,363   |
| % Total sales                                          | 19%                | 23%          | 28%          |
| Y-Y                                                    | (11)%              | (24)%        | 27%          |
| Total sales                                            | \$ 2,573,176       | \$ 2,388,808 | \$ 2,633,800 |
| Y-Y                                                    | 8%                 | (9)%         | 29%          |

\* We sold our DSP-based DSL ASIC and network processor product line in the second quarter of fiscal 2006.

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The sharp reduction in sales of DSP-based DSL ASIC and network processor products was a result of our decision to sell this product line in the second quarter of fiscal 2006. The wireless handset chipset sales are characterized by high sales volumes in periods of significant growth followed by periods of sales declines as demand for our product declines or shifts to our competition.

*Revenue Trends by Geographic Region*

The percentage of sales by geographic region, based upon point of sale, for the last three years is as follows:

| <b>Region</b> | <b>Fiscal Year</b> |             |             |
|---------------|--------------------|-------------|-------------|
|               | <b>2006</b>        | <b>2005</b> | <b>2004</b> |
| North America | 25%                | 25%         | 25%         |
| Europe        | 22%                | 23%         | 20%         |
| Japan         | 19%                | 19%         | 19%         |
| China         | 13%                | 11%         | 14%         |
| Rest of Asia  | 21%                | 22%         | 22%         |

There was no major shift in the distribution of revenue by geographic region in fiscal 2006 as compared to fiscal 2005. The percentage of our net sales in China as a percentage of our total sales decreased in fiscal 2005 as compared to fiscal 2004 primarily as the result of the changes in sales into the wireless handset end markets.

*Gross Margin*

|                | <b>Fiscal Year</b> |              |              |
|----------------|--------------------|--------------|--------------|
|                | <b>2006</b>        | <b>2005</b>  | <b>2004</b>  |
| Gross Margin   | \$ 1,506,140       | \$ 1,382,840 | \$ 1,553,801 |
| Gross Margin % | 58.5%              | 57.9%        | 59.0%        |

The increase in gross margin percentage was primarily related to the increase in utilization of our wafer fabrication facilities and increased sales of higher margin products during fiscal 2006 as compared to fiscal 2005. These increases were partially offset by stock-based compensation expense and restructuring related expenses, primarily accelerated depreciation of \$18.3 million, included in cost of sales during fiscal 2006. Gross margin included an aggregate \$30.3 million of stock-based compensation expense, restructuring-related and acquisition-related expenses in fiscal 2006.

Gross margin declined in fiscal 2005 by 110 basis points from the gross margin recorded in fiscal 2004. The decline in gross margin was primarily the result of the effect of fixed manufacturing costs allocated across lower levels of production in fiscal 2005.

*Stock-based Compensation Expense*

During the first quarter of fiscal 2006, on October 30, 2005, we adopted the Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment*, or SFAS 123R, using the modified prospective application method. Compensation cost is calculated on the date of grant using the fair value of the options as calculated using the Black-Scholes valuation model. The Black-Scholes valuation model requires us

to make several assumptions. One of the key assumptions is expected volatility. For options granted prior to fiscal 2005, we used historical volatility to estimate the grant-date fair value of stock options. We changed our method of estimating expected volatility for all stock options granted after fiscal 2004 from exclusively relying on historical volatility to exclusively relying on implied volatility. This change was the result of a thorough review we undertook which included consultations with several third-party advisors. We currently believe that the exclusive use of implied volatility results in a more accurate estimate of the grant-date fair value of employee stock options because it more appropriately reflects the market's current expectations of future volatility. Historical volatility during the period commensurate with the expected term of our stock options over the past several years included a period of time during which our stock price experienced unprecedented increases and subsequent declines. We believe that this past stock price volatility is unlikely to be indicative of future stock price behavior.

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As a result of adopting SFAS 123R on October 30, 2005, the Company's income before income taxes and net income for fiscal 2006, are \$73.9 million and \$52.6 million lower, respectively, than if it had continued to account for share-based compensation under APB Opinion 25. Basic and diluted earnings per share for the year ended October 28, 2006 are \$0.15 and \$0.14 lower, respectively, than if the Company had continued to account for share-based compensation under APB Opinion 25.

Prior to the adoption of SFAS 123R, we accounted for share-based payments to employees under APB Opinion No. 25, *Accounting for Stock Issued to Employees*, using the intrinsic value method and, as such, generally recognized no compensation cost for employee stock options. The adoption of SFAS 123R under the modified prospective application method allowed us to recognize compensation cost beginning with the effective date (a) based on the requirement of SFAS 123R for all share-based payments granted after the effective date and (b) based on the requirements of SFAS 123 for all awards granted to employees prior to the effective date of SFAS 123R that remain unvested on the effective date. Under the modified prospective application method, prior periods are not restated for the effect of SFAS 123R. We used the graded attribution method to recognize expense for all options granted prior to the adoption of SFAS 123R. Upon adoption of SFAS 123R on October 30, 2005, we switched to the straight-line attribution method to recognize expense for all grants made after October 29, 2005. The expense associated with the unvested portion of the pre-adoption grants will continue to be expensed using the graded attribution method.

Prior to the adoption of SFAS 123R, on October 18, 2005, we accelerated the vesting of all unvested stock options awarded to employees after December 31, 2000 that had exercise prices of \$40.00 per share or greater. Options issued to our corporate officers and directors were not accelerated. Unvested options to purchase approximately 18 million shares became exercisable as a result of the vesting acceleration. Because the exercise price of all the modified options was greater than the market price of our underlying common stock on the date of the modification, no stock-based compensation expense was recorded in the statement of income in accordance with APB Opinion No. 25. The primary purpose for modifying the terms of these out-of-the-money stock options to accelerate their vesting was to eliminate the need to recognize the remaining unrecognized non-cash compensation expense in our statement of income associated with these stock options as measured under SFAS 123, *Accounting for Stock-Based Compensation*, because the approximately \$188 million (\$134 million net of tax) of future expense associated with these options would have been disproportionately high compared to the economic value of the options at the date of modification.

As of October 28, 2006, the total compensation cost related to unvested awards not yet recognized in the statement of income was approximately \$156.6 million, which will be recognized over a weighted average period of 1.7 years.

See Note 3 to our Consolidated Financial Statements contained in Item 8 of this Annual Report on Form 10-K for further information regarding our adoption of SFAS 123R.

*Research and Development (R&D)*

|                                  | <b>2006</b> | <b>Fiscal Year<br/>2005</b> | <b>2004</b> |
|----------------------------------|-------------|-----------------------------|-------------|
| R&D Expenses                     | \$ 536,747  | \$ 497,097                  | \$ 514,442  |
| R&D Expenses as a % of Net Sales | 20.9%       | 20.8%                       | 19.5%       |

R&D expenses for fiscal 2006 increased by \$39.7 million, or 8%, from the amount recorded in fiscal 2005. The increase in R&D expense was primarily the result of recognizing \$33.0 million of stock-based compensation expense due to the adoption of SFAS 123R and an increase in employee bonus expense. These increases were partially offset by the savings realized from the restructuring actions we initiated in the fourth quarter of fiscal 2005 and the sale of

our DSP-based DSL ASIC and network processor product line in the second quarter of fiscal 2006.

R&D expenses for fiscal 2005 decreased by \$17 million, or 3%, from the amount recorded in fiscal 2004. The decrease in R&D expenses was caused by a \$9 million reduction in employee bonus expenses and reductions in other expenses of \$21 million as a result of our tight control over all other engineering expenses throughout the year. These expense reductions were partially offset by a \$13 million increase in salary and employee benefit expenses.

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R&D expense as a percentage of net sales will fluctuate from year-to-year depending on the amount of net sales and the success of new product development efforts, which we view as critical to our future growth. At any point in time we have hundreds of R&D projects underway, and we believe that none of these projects is material on an individual basis. We expect to continue the development of innovative technologies and processes for new products, and we believe that a continued commitment to R&D is essential in order to maintain product leadership with our existing products and to provide innovative new product offerings, and therefore, we expect to continue to make significant R&D investments in the future.

*Selling, Marketing, General and Administrative (SMG&A)*

|                                    | <b>2006</b> | <b>Fiscal Year<br/>2005</b> | <b>2004</b> |
|------------------------------------|-------------|-----------------------------|-------------|
| SMG&A Expenses                     | \$ 394,086  | \$ 338,276                  | \$ 340,036  |
| SMG&A Expenses as a % of Net Sales | 15.3%       | 14.2%                       | 12.9%       |

SMG&A expenses for fiscal 2006 increased \$55.8 million, or 16%, from the levels recorded in fiscal 2005. The increase in SMG&A expenses was primarily the result of recording \$33.2 million of stock-based compensation expense related to the adoption of SFAS 123R and higher employee salary, employee benefit and employee bonus expenses. These increases were partially offset by savings realized from the restructuring actions we initiated in the fourth quarter of fiscal 2005 and the sale of our DSP-based DSL ASIC and network processor product line in the second quarter of fiscal 2006.

SMG&A expenses for fiscal 2005 decreased by \$2 million, or 1%, from the levels recorded in 2004. The decrease in SMG&A expenses was caused by a reduction in employee bonus expenses of \$4 million and reductions in other SMG&A expenses of \$10 million as a result of tight control over all discretionary spending throughout the year. These expense reductions were partially offset by a \$12 million increase in salary and employee benefit expenses.

*Purchased In-process Research and Development*

|                                | <b>Fiscal Year<br/>2006</b> |
|--------------------------------|-----------------------------|
| TTPCom Limited                 | \$ 5,500                    |
| Integrand                      | 11,124                      |
| AudioAsics                     | 5,087                       |
| Total Purchased in-Process R&D | \$ 21,711                   |

We incurred charges totaling \$21.7 million for the write-off of in-process technology that had not yet reached technological feasibility associated with our acquisitions in the third and fourth quarters of fiscal 2006. There were no charges for the write-off of in-process research and development in fiscal 2005 or 2004. See [Acquisitions](#) below for additional information regarding these acquisitions.

*Special Charges Fiscal 2005 and Fiscal 2006**Closure of Wafer Fabrication Facility*

During the fourth quarter of fiscal 2005, we recorded a special charge of \$20.3 million as a result of a decision to close our California wafer fabrication operations and transfer virtually all of the production of products manufactured there to our facility located in Wilmington, Massachusetts. The charge was for severance and fringe benefit costs that were recorded pursuant to SFAS 88, *Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits*, or SFAS 88, under our ongoing benefit plan for 339 manufacturing employees and 28 general and administrative employees. The severance benefit was calculated based on length of past service, and employees must continue to be employed until they are involuntarily terminated in order to receive the severance benefit. As of October 28, 2006, 72 of these employees remained employed at our company. The employment of 42 of these employees was terminated on November 9, 2006. The remaining 30 employees will continue working over the next three months on the cleanup and closure of this wafer fabrication facility.

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In addition to the charge recorded in the fourth quarter of fiscal 2005, we recorded additional expense during fiscal 2006, which consisted of \$18.3 million of non-cash cost of sales expenses for additional depreciation due to shortened useful lives of certain manufacturing equipment and \$2.0 million for stay-on bonuses. We reversed approximately \$2.0 million of our severance accrual during fiscal 2006. The accrual reversal was required because some employees voluntarily left the company, other employees found alternative employment within the company, and there was an over accrual related to fringe benefits because severance payments, normally paid as income continuance, were paid as lump sum payments, which reduced the benefit costs associated with these payments.

We ceased production at the wafer fabrication facility on November 9, 2006. We expect to incur additional expenses related to this action in the first half of fiscal 2007 of approximately \$12 million for lease termination, clean-up and closure costs. In accordance with SFAS 146, *Accounting for Costs Associated with Exit or Disposal Activities*, the lease charge will be taken when we cease using the building and the cleanup and closure costs will be expensed as incurred. The closure of this facility is estimated to result in annual cost savings of approximately \$50 million per year beginning in fiscal 2007. These annual savings are expected to be realized as follows: approximately \$49 million in cost of sales, of which approximately \$7 million relates to non-cash depreciation savings, and approximately \$1 million in SMG&A expenses.

*Reorganization of Product Development and Support Programs*

During the fourth quarter of fiscal 2005, we recorded a special charge of \$11.2 million as a result of our decision to reorganize our product development and support programs with the goal of providing greater focus on our analog and DSP product programs. The charge was for severance and fringe benefit costs that were recorded pursuant to SFAS 88 under our ongoing benefit plan or statutory requirements at foreign locations for 60 manufacturing employees and 154 engineering and selling, marketing, general and administrative employees. These employees must continue to be employed until they are involuntarily terminated in order to receive the severance benefit. As of October 28, 2006, 23 of these employees were still employed by the company.

During fiscal 2006, we recorded an additional special charge of \$3.8 million related to this reorganization action. Approximately \$1.5 million of this charge was for lease obligation costs for a facility we ceased using during the first quarter of fiscal 2006 and the write-off of property, plant and equipment and other items. The remaining \$2.3 million relates to the severance and fringe benefit costs that were recorded in the fourth quarter of fiscal 2006 pursuant to SFAS 88 under our ongoing benefit plan or statutory requirements at foreign locations for 46 engineering and selling, marketing, general and administrative employees. These employees must continue to be employed until they are involuntarily terminated in order to receive the severance benefit. As of October 28, 2006, 35 of these employees were still employed by the company.

We do not expect to incur any further material charges related to this reorganization action. These organizational changes are expected to result in savings of approximately \$25 million per year once fully completed by the end of the first quarter of fiscal 2007. These savings are expected to be realized as follows: approximately \$14 million in R&D expenses, approximately \$8 million in SMG&A expenses and approximately \$3 million in cost of sales. A portion of these savings associated with the charge we recorded in the fourth quarter of fiscal 2005 have already been realized during the second half of fiscal 2006.

*Operating Income*

|             | <b>Fiscal Year</b> |             |
|-------------|--------------------|-------------|
| <b>2006</b> | <b>2005</b>        | <b>2004</b> |

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|                                      |            |            |            |
|--------------------------------------|------------|------------|------------|
| Operating income                     | \$ 551,806 | \$ 515,987 | \$ 699,323 |
| Operating income as a % of Net Sales | 21.4%      | 21.6%      | 26.6%      |

The \$35.8 million increase in operating income in fiscal 2006 as compared to fiscal 2005 was primarily the result of an 8% increase in net sales and a 60 basis point increase in gross margin percentage. These increases were partially offset by \$73.9 million of stock-based operating expenses associated with the adoption of SFAS 123R and the \$21.7 million write-off of purchased in-process research and development from our recent acquisitions. The special charges in fiscal 2006 were lower by \$29.7 million from the special charges recorded in fiscal 2005.

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The decrease in operating income in fiscal 2005 as compared to fiscal 2004 was primarily a result of a 9% decrease in net sales, a 110 basis point decrease in gross margin combined with a \$31.5 million special charge in fiscal year 2005 partially offset by a decrease in operating expense.

*Nonoperating (Income) Expense*

|                             | <b>Fiscal Year</b> |             |             |
|-----------------------------|--------------------|-------------|-------------|
|                             | <b>2006</b>        | <b>2005</b> | <b>2004</b> |
| Interest expense            | \$ 52              | \$ 27       | \$ 224      |
| Interest income             | (100,169)          | (71,688)    | (36,047)    |
| Other (income)/expense, net | (10,472)           | (42)        | 2,410       |
| Total nonoperating income   | \$ (110,589)       | \$ (71,703) | \$ (33,413) |

Nonoperating income increased by \$38.9 million in fiscal 2006 as compared to fiscal 2005. This increase was primarily the result of higher interest income, which was primarily attributable to higher interest rates in fiscal 2006 as compared to fiscal 2005. Non-operating income for fiscal 2006 also included a \$13.0 million gain on the sale of our DSP-based DSL ASIC and network processor product line during the second quarter of fiscal 2006.

The year-to-year increase in interest income in fiscal 2005 as compared to fiscal 2004 was primarily attributable to higher interest rates as well as higher average invested cash balances.

*Provision for Income Taxes*

|                            | <b>Fiscal Year</b> |             |             |
|----------------------------|--------------------|-------------|-------------|
|                            | <b>2006</b>        | <b>2005</b> | <b>2004</b> |
| Provision for Income Taxes | \$ 113,661         | \$ 172,903  | \$ 161,998  |
| Effective Income Tax Rate  | 17.2%              | 29.4%       | 22.1%       |

Our effective tax rate reflects the applicable tax rate in effect in the various tax jurisdictions around the world where our income is earned. The tax rate was lower in fiscal 2006 compared to fiscal 2005 primarily due to the recording of tax benefits of \$35.2 million associated with the completion of an Internal Revenue Service (IRS) examination during fiscal 2006, including the reversal of penalty accruals and the filing of refund claims in other jurisdictions associated with the completion of the IRS audit. In addition, the effective tax rate was higher in fiscal 2005 as a result of our repatriation of foreign earnings and the write-off of deferred tax assets associated with balances accumulated in our deferred compensation plan as more fully described below.

On October 22, 2004, the American Jobs Creation Act of 2004, or the AJCA, was signed into law. The AJCA created a temporary incentive for US multinational corporations to repatriate accumulated foreign income by providing an 85% dividends received deduction for certain dividends from controlled foreign corporations. During fiscal 2005, we repatriated \$1,055 million of accumulated foreign earnings. Under current tax law, the earnings repatriated prior to October 29, 2005 were taxed at a reduced effective tax rate. As a result of this action, we recorded additional income tax expense of \$49 million in fiscal 2005.

We had originally established a deferred tax asset on our consolidated balance sheet with the expectation that the officers subject to the 162(m) limitation of the Internal Revenue Code would not withdraw their balances from the Analog Devices, Inc. Deferred Compensation Plan, or the deferred compensation plan, while they were still subject to the 162(m) limitation, and we would receive a tax deduction at the time of withdrawal, generally upon their retirement. Due to changes in tax law during 2005 that were enacted as part of the AJCA, the laws associated with distributions from deferred compensation plans have changed. As a result, in fiscal 2005 three executive officers who were subject to the 162(m) limitation withdrew, or indicated their intention to withdraw a portion of their balances from the deferred compensation plan. We incurred additional income tax expense in fiscal 2005 of \$7.2 million as a result of the write-off of deferred tax assets associated with balances accumulated in the deferred compensation plan.

**Table of Contents***Net Income*

|                                | <b>2006</b> | <b>Fiscal Year<br/>2005</b> | <b>2004</b> |
|--------------------------------|-------------|-----------------------------|-------------|
| Net Income                     | \$ 549,482  | \$ 414,787                  | \$ 570,738  |
| Net Income as a % of Net Sales | 21.4%       | 17.4%                       | 21.7%       |
| Diluted EPS                    | \$ 1.48     | \$ 1.08                     | \$ 1.45     |

Net income increased by \$134.7 million in fiscal 2006 as compared to fiscal 2005, primarily as the result of the 8% increase in net sales, the improvement in gross margin percentage, the increase in nonoperating income and lower tax expense. This increase in net income was partially offset by a year-to-year increase in operating expenses of \$87.5 million, primarily as a result of \$66.2 million of stock-based operating expenses related to the adoption of SFAS 123R and \$23.1 million of operating expenses related to the our acquisitions during fiscal 2006. These operating expense increases were partially offset by a \$29.7 million decrease in special charges in fiscal 2006 as compared to fiscal 2005.

Net income decreased by \$156 million in fiscal 2005 as compared to fiscal 2004. This decrease was primarily the result of the year-to-year decrease in net sales, a \$49 million tax charge related to the repatriation of foreign earnings and \$31 million of special charges recorded in fiscal 2005. The decrease in net income was partially offset by a \$36 million increase in interest income.

The impact of inflation and foreign currency exchange rate movement on our business during the past three fiscal years has not been significant.

*Acquisitions*

In the third quarter of fiscal 2006, we completed a transaction with TTPCom Limited (TTPCom), whereby TTPCom transferred to us intellectual property, engineering resources, and related assets associated with the support and customization of TTPCom's GSM/GPRS/EDGE modem software for use on our existing and future generations of SoftFone(R) baseband processors. We also acquired development rights for AJAR, TTPCom's advanced applications platform. As a result of this transaction, we are the single point of contact for both hardware and software support for our new and existing wireless handset customers, thus improving our abilities to service the needs of individual customers. We paid \$11.9 million in initial cash payments and may become obligated to make additional cash payments of up to an aggregate of \$12 million based on the achievement of technological milestones during the period from May 2006 through November 2006. The purchase price was allocated to the tangible and intangible assets acquired based on their estimated fair values at the date of acquisition. The estimated fair values of the assets exceeded the initial payments by \$7.8 million, resulting in negative goodwill. Pursuant to Statement of Financial Accounting Standards (SFAS) No 141, *Business Combinations*, we recorded a liability for the contingent consideration that will be accounted for as additional purchase price, up to the amount of the negative goodwill. As contingent payments become due, the payments will be applied against the contingent liability. Contingent payments in excess of \$7.8 million, if any, will be recorded as additional purchase price. As of October 28, 2006, we had paid \$6 million of contingent payments, and the remaining contingent liability was \$1.8 million. The purchase price included \$5.5 million of in-process technology that had not yet reached technological feasibility, had no alternative future use and was charged to operations during the third quarter of fiscal 2006. The in-process technology related to software code developed for use in our semiconductor chipsets manufactured for devices that use both the 2G and 2.5G cellular wireless technology standards. The fair value of the in-process technology was determined by a third party using the income forecast method, which is a discounted net cash flow approach. At the time of the acquisition,

the in-process technology was approximately 56% complete. As of October 28, 2006, the in-process research and development projects are on schedule. We expect to complete these projects in the first quarter of fiscal 2007 and incur an additional \$1.3 million of expense related to these projects. The acquisition also included \$13.2 million of intangible assets that will be amortized over their estimated useful lives of five years using an accelerated amortization method that reflects the estimated pattern of economic use.

In the fourth quarter of fiscal 2006, we acquired substantially all the outstanding stock of privately-held Integrant Technologies, Inc. (Integrant) of Seoul, Korea. The acquisition enabled us to enter the mobile TV market as well as strengthened our presence in the Asian region. We paid \$127.2 million in initial cash payments at closing

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and may be obligated to make additional cash payments of up to an aggregate of \$33 million upon the satisfaction of certain conditions. The initial cash payments include \$4.2 million held in escrow for the purchase of the remaining non-founder outstanding shares. The preliminary purchase price was allocated to the tangible and intangible assets acquired based on their estimated fair values at the date of acquisition. We expect to complete the purchase accounting in the first quarter of fiscal 2007 upon obtaining certain additional information. The \$33 million of potential cash payments is comprised of \$25 million for the achievement of revenue-based milestones that may be payable during the period from July 2006 through December 2007 and \$8 million related to the purchase of shares from the founder of Integrant during the period from July 2007 through July 2009. The additional cash payments, if any, will be recorded as additional purchase price. The purchase price included \$11.1 million of in-process technology that had not yet reached technological feasibility, had no alternative future use and was charged to operations during the fourth quarter of fiscal 2006. The in-process technology related to technologies currently in development for Dual DAB, T-DMB, DVB-H, RFID and WiBro applications. The fair value of the in-process technology was determined by a third-party using the income forecast method, which is a discounted net cash flow approach. At the time of the acquisition, the in-process technology was approximately 74% complete. As of October 28, 2006, the in-process research and development projects are on schedule. We expect to complete the projects in the second quarter of fiscal 2007 and incur an additional \$3.3 million of expense related to these projects. The acquisition also included \$21.6 million of intangible assets that will be amortized over their estimated useful lives of two to five years using an accelerated amortization method that reflects the estimated pattern of economic use.

In the fourth quarter of fiscal 2006, we acquired all the outstanding stock of privately-held AudioAsics A/S (AudioAsics) of Roskilde, Denmark. The acquisition of AudioAsics allows us to continue developing our low-power audio solutions, while expanding our presence in the Nordic and Eastern European regions. We paid \$19.3 million in initial cash payments at closing and may be obligated to make additional cash payments of up to an aggregate of \$8 million upon the satisfaction of certain conditions. The purchase price was allocated to the tangible and intangible assets acquired based on their estimated fair values at the date of acquisition. The \$8 million of potential cash payments is comprised of \$4.8 million for the achievement of revenue-based milestones that may be payable during the period from October 2006 through January 2009 and \$3.2 million based on the achievement of technological milestones during the period from October 2006 through January 2009. In order to be entitled to receive \$2.4 million of the revenue-based contingent consideration, certain key employees must continue to be employed by us. As such, that portion of the revenue-based contingent consideration will be recorded as compensation expense when, and if, it is earned. The technological milestones require post-acquisition services to be rendered in order to be achieved and, as such, will be recorded as compensation expense when earned. The purchase price included \$5.1 million of in-process technology that had not yet reached technological feasibility, had no alternative future use and was charged to operations during the fourth quarter of fiscal 2006. The in-process technology related to technologies currently in development for analog and digital microphone pre-amplifiers. The fair value of the in-process technology was determined by a third party using the income forecast method, which is a discounted net cash flow approach. At the time of the acquisition, the in-process technology was approximately 69% complete. As of October 28, 2006, the in-process research and development projects are on schedule. We expect to complete the projects by April 2007 and incur an additional \$1.0 million of expense related to these projects. The acquisition also included \$8.3 million of intangible assets that will be amortized over their estimated useful lives of five years using an accelerated amortization method that reflects the estimated pattern of economic use.

Pro forma results of operations for TTPCom, Integrant and AudioAsics have not been provided herein as they were not material to us on either an individual or an aggregate basis. The results of operations of each acquisition are included in our consolidated statement of income from the date of such acquisition.

### *Related Party Transaction*

One of our directors, who has served on our Board of Directors since 1988, became a director of Taiwan Semiconductor Manufacturing Company, or TSMC, in fiscal 2002 and continues to serve as a director of TSMC. Management believes the terms and prices for the purchases of products from TSMC are not affected by the presence of one of our directors on the Board of Directors of TSMC. We purchased approximately \$281 million, \$224 million and \$337 million of products from TSMC in fiscal years 2006, 2005 and 2004, respectively.

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Approximately \$17 million and \$27 million were payable to TSMC as of October 28, 2006 and October 29, 2005, respectively. We anticipate that we will make significant purchases from TSMC in fiscal year 2007.

**Liquidity and Capital Resources**

|                                                     | <b>2006</b> | <b>Fiscal Year<br/>2005</b> | <b>2004</b> |
|-----------------------------------------------------|-------------|-----------------------------|-------------|
| Net Cash Provided by Operations                     | \$ 621,102  | \$ 672,704                  | \$ 778,045  |
| Net Cash Provided by Operations as a % of Net Sales | 24.1%       | 28.2%                       | 29.5%       |

At October 28, 2006, cash, cash equivalents and short-term investments totaled \$2,128 million, a decrease of \$577.6 million from fiscal 2005. Our statement of cash flows reflects the impact of \$181.2 million for allocating the excess tax benefit from the exercise of stock options over a period of several years between the financing and operating section of the statement of cash flows, as required by SFAS 123R. The primary sources of funds for fiscal 2006 were net cash generated from operating activities of \$621.1 million (which is net of the \$181.2 million of non-cash excess tax benefit discussed above), \$305.6 million of cash inflows from the net change in our short-term available-for-sale investments, proceeds from the sale of a product line of \$23.1 million and proceeds of \$94.4 million from our various employee stock plans. The principal uses of funds during fiscal 2006 were the repurchase of approximately 30.7 million shares of our common stock for an aggregate of \$1,025 million, cash dividend payments of \$201.5 million, payments of \$157.0 million for acquisitions and capital expenditures of \$129.3 million.

During fiscal 2005, net cash provided by operations decreased by \$105 million from the amount recorded in fiscal 2004 primarily due to a decline in net income of \$156 million. Cash and cash equivalents increased by \$109 million during fiscal 2005. This increase was the result of \$673 million of cash flow from operations, \$89 million in proceeds from our various employee stock programs and \$70 million of cash inflows from the net change in our short-term available-for-sale investments. These cash inflows were partially offset by the repurchase of \$525 million of our common stock, the payment of \$119 million of cash dividends and additions to property, plant and equipment of \$85 million. Cash, cash equivalents and short-term investments increased by \$21 million during fiscal 2005 to \$2,706 million at October 29, 2005.

|                                 | <b>Fiscal Year<br/>2006</b> | <b>2005</b> |
|---------------------------------|-----------------------------|-------------|
| Accounts Receivable             | \$ 329,393                  | \$ 320,523  |
| Days Sales Outstanding          | 47                          | 47          |
| Inventory                       | \$ 378,651                  | \$ 325,605  |
| Days Cost of Sales in Inventory | 128                         | 115         |

Accounts receivable at the end of fiscal 2006 increased by \$8.9 million, or 3%, from the amount at the end of fiscal 2005. This increase was the result of higher sales in the last month of the fourth quarter of fiscal 2006 as compared to the last month of the fourth quarter of fiscal 2005.

Inventories at the end of fiscal 2006 increased by \$53.0 million, or 16%, from the amount at the end of fiscal 2005 and days cost of sales in inventory at the end of fiscal 2006 increased by 13 days from the amount at the end of fiscal 2005. Approximately \$19.0 million of this increase relates to the inventory that was built in preparation for the planned closure of our wafer fabrication facility in California and approximately \$3.7 million relates to the

capitalization of manufacturing related stock-based compensation expense as a result of our adoption of SFAS 123R in the first quarter of fiscal 2006. The remainder of the increase primarily relates to increased inventory to support anticipated higher sales demand.

Current liabilities decreased to \$490.9 million at October 28, 2006, a decrease of \$328.0 million, or 40%, from \$818.9 million at the end of fiscal 2005. The decrease in current liabilities was largely the result of a \$233.3 million net decrease in the current portion of the deferred compensation plan liability, primarily as a result of withdrawals by plan participants in response to certain provisions of the American Jobs Creation Act, as more fully described below. Additionally, income taxes payable at October 28, 2006 decreased by a net of \$111.3 million compared to the end of fiscal 2005, which was primarily as a result of recording tax deductions in 2006 for stock options exercised

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over a period of several years becoming available upon the completion of the IRS examination. These decreases were partially offset by a \$27.7 million increase in deferred income on shipments to distributors due to the increase in inventory held by our distributors as a result of increases in demand for our products during fiscal 2006.

During fiscal 2006, we distributed \$254.1 million from our amended and restated deferred compensation plan, or the Deferred Compensation Plan, as a result of participant terminations or at the direction of the participants. This amount represented compensation and/or stock option gains previously deferred by those participants pursuant to the terms of our Deferred Compensation Plan and earnings on those deferred amounts. As a result of certain provisions of the American Jobs Creation Act, participants had the opportunity until December 31, 2005 to elect to withdraw amounts previously deferred.

Net additions to property, plant and equipment were \$129.3 million in fiscal 2006, \$85.5 million in fiscal 2005 and \$146.2 million in fiscal 2004. Fiscal 2007 capital expenditures are expected to total approximately \$175 million.

During fiscal 2006, our Board of Directors declared cash dividends totaling \$0.56 per outstanding share of common stock resulting in dividend payments of \$201.5 million in fiscal 2006. The payment of future dividends, if any, will be based on several factors including our financial performance, outlook and liquidity. After the end of the fiscal year, on November 13, 2006, our Board of Directors declared a cash dividend of \$0.16 per outstanding share of our common stock. The dividend is payable on December 13, 2006 to shareholders of record on November 24, 2006 and is expected to total approximately \$54 million.

On May 11, 2005, our Board of Directors authorized an increase in the aggregate dollar amount of common stock that may be repurchased under our share repurchase program previously adopted by our Board of Directors on August 11, 2004 from \$500 million to \$1 billion. On March 14, 2006, our Board of Directors authorized the repurchase by us of an additional \$1 billion of our common stock, increasing the total amount of our common stock we can repurchase from \$1 billion to \$2 billion of our common stock. Under the repurchase program, we may repurchase outstanding shares of our common stock from time to time in the open market and through privately negotiated transactions. Unless terminated earlier by resolution of our Board of Directors, the repurchase program will expire when we have repurchased all shares authorized for repurchase under the repurchase program. During fiscal 2006, we repurchased approximately \$1,025 million of our common stock under this plan. During fiscal 2005, we repurchased approximately \$525.5 million of our common stock under this program. As of October 28, 2006, we had \$312.4 million of authorization remaining under our repurchase program.

The table below summarizes our contractual obligations as of October 28, 2006:

| (thousands)                             | Total      | Payment due by period |           |           |                   |
|-----------------------------------------|------------|-----------------------|-----------|-----------|-------------------|
|                                         |            | Less than 1 Year      | 1-3 Years | 4-5 Years | More than 5 Years |
| Contractual obligations:                |            |                       |           |           |                   |
| Operating leases <sup>a</sup>           | \$ 83,634  | \$ 30,311             | \$ 39,777 | \$ 8,570  | \$ 4,976          |
| Deferred compensation plan <sup>b</sup> | 31,742     | 1,109                 | 2,204     |           | 28,429            |
| Pension funding <sup>c</sup>            | 7,497      | 7,497                 |           |           |                   |
| Total                                   | \$ 122,873 | \$ 38,917             | \$ 41,981 | \$ 8,570  | \$ 33,405         |

- (a) Certain of our operating lease obligations include escalation clauses. These escalating payment requirements are reflected in the table.
- (b) These payments relate to obligations under our deferred compensation plan. The deferred compensation plan allows certain members of management and other highly-compensated employees and non-employee directors to defer receipt of all or any portion of their compensation. Prior to January 1, 2005, participants could also defer gains on stock options and restricted stock granted before July 23, 1997. The amount in the More than 5 Years column of the table represents the remaining total balance under the deferred compensation plan to be paid to participants who have not terminated employment. Since we cannot reasonably estimate the timing of withdrawals for participants who have not yet terminated employment we have included the future obligation to these participants in the More than 5 Years column of the table. All other columns represent installment payments to be made to those employees who have retired or are on long-term disability.

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- (c) Our funding policy for our foreign defined benefit plans is consistent with the local requirements of each country. The payment obligations in the table are estimates of our expected contributions to these plans for fiscal year 2007. The actual future payments may differ from the amounts presented in the table and reasonable estimates of payments beyond one year are not practical because of potential future changes in variables such as plan asset performance, interest rates and the rate of increase in compensation levels.

Purchase orders for the purchase of raw materials and other goods and services are not included in the table above. We are not able to determine the total amount of these purchase orders that represent contractual obligations, as purchase orders may represent authorizations to purchase rather than binding agreements. In addition, our purchase orders generally allow for cancellation without significant penalties. We do not have significant agreements for the purchase of raw materials or other goods specifying minimum quantities or set prices that exceed our expected short-term requirements.

The expected timing of payments and the amounts of the obligations discussed above are estimated based on current information.

At October 28, 2006, our principal source of liquidity was \$2,128 million of cash, cash equivalents and short-term investments. We believe that our existing sources of liquidity and cash expected to be generated from future operations, together with anticipated available long-term financing, will be sufficient to fund operations, capital expenditures and research and development efforts for at least the next twelve months and thereafter for the foreseeable future.

### *Off-balance Sheet Financing*

As of October 28, 2006, we had no off-balance sheet financing arrangements.

## **Outlook**

The following statements are based on current expectations. These statements are forward looking, and actual results may differ materially. These statements do not give effect to the potential impact of any mergers, acquisitions, divestitures, or business combinations that may be announced or closed after the date of filing this report. These statements supersede all prior statements regarding business outlook made by the Company. Product sales in the first quarter of fiscal 2007 are planned to be approximately \$635 to \$670 million. This includes an additional week of operations as the first quarter of fiscal 2007 will have a total of 14 weeks. In addition, revenue in the first quarter of fiscal 2007 will include a \$35 million one-time, non-recurring payment received by us on November 9, 2006 in exchange for licensing certain intellectual property rights to a third party. Total revenue in the first quarter of fiscal 2007 is expected to range from \$670 to \$705 million. Gross margin percentage is planned to be approximately 61.2% to 61.6% of revenue in the first quarter of fiscal 2007 which includes the impact of the \$35 million one-time payment that has no cost of sales associated with it. Diluted EPS is planned to be approximately \$0.36 to \$0.42 for the first quarter of fiscal 2007.

## **New Accounting Pronouncements**

### *Accounting for Prior Year Misstatements*

In September 2006, the United States Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin (SAB) No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements* (SAB 108). This SAB provides guidance on the consideration of the effects of prior year misstatements in quantifying current year misstatements for the purpose of a materiality assessment. SAB 108

establishes an approach that requires quantification of financial statement errors based on the effects of each of the company's balance sheet and statement of operations financial statements and the related financial statement disclosures. The SAB permits existing public companies to record the cumulative effect of initially applying this approach in the first year ending after November 15, 2006 by recording the necessary correcting adjustments to the carrying values of assets and liabilities as of the beginning of that year with the offsetting adjustment recorded to the opening balance of retained earnings. Additionally, the use of the cumulative effect transition method requires detailed disclosure of the nature and amount of each individual error being corrected

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through the cumulative adjustment and how and when it arose. We are currently evaluating the impact, if any, that SAB 108 may have on our financial condition, results of operations or liquidity.

### *Accounting for Defined Benefit Pension and Other Postretirement Plans*

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard (SFAS) No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans - An Amendment of FASB Statements No. 87, 88, 106, and 132R* (SFAS 158). SFAS 158 requires companies to recognize the funded status of pension and other postretirement benefit plans on sponsoring employers' balance sheets and to recognize changes in the funded status in the year the changes occur. It also requires the measurement date of plan assets and obligations to occur at the end of the employers' fiscal year. SFAS 158 is effective for us at the end of fiscal 2007, except for the change in measurement date, which is effective for us in fiscal 2008. The effect on our financial statements is dependent upon the discount rate at our fiscal 2007 measurement date (September 30, 2007) and actual returns on our pension plan assets during the year. We are currently evaluating the impact, if any, that SFAS 158 may have on our financial condition, results of operations or liquidity.

### *Accounting for Uncertainty in Income Taxes*

In June 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109* (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS 109, *Accounting for Income Taxes*. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. We are currently evaluating the impact, if any, that FIN 48 may have on our financial condition, results of operations or liquidity.

### *Accounting Changes and Error Corrections*

In May 2005, the FASB issued SFAS No. 154, *Accounting Changes and Error Corrections* (SFAS 154) which supersedes APB Opinion No. 20, *Accounting Changes* and SFAS No. 3, *Reporting Accounting Changes in Interim Financial Statements*. SFAS 154 provides guidance on the accounting for and reporting of accounting changes and error corrections. It establishes, unless impracticable, retrospective application as the required method for reporting a change in accounting principle in the absence of explicit transition requirements specific to the newly adopted accounting principle. The correction of an error in previously issued financial statements is not an accounting change. However, the reporting of an error correction involves adjustments to previously issued financial statements similar to those generally applicable to reporting an accounting change retroactively. Therefore, the reporting of a correction of an error by restating previously issued financial statements is also addressed by this statement. SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The adoption of SFAS 154 during fiscal 2006 did not have a material impact on our financial condition, results of operations or liquidity.

### *Asset Retirements*

In March 2005, the FASB issued FIN 47, *Accounting for Conditional Asset Retirement Obligations - an interpretation of FASB Statement No. 143*. FIN 47 clarifies that the term "conditional asset retirement obligation" as used in FASB Statement No. 143, *Accounting for Asset Retirement Obligations*, refers to a legal obligation to perform an asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. The obligation to perform the asset retirement activity is unconditional

even though uncertainty exists about the timing and (or) method of settlement. Uncertainty about the timing and (or) method of settlement of a conditional asset retirement obligation should be factored into the measurement of the liability when sufficient information exists. FIN 47 also clarifies when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. FIN 47 is effective no

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later than the end of fiscal years ending after December 15, 2005. The adoption of FIN 47 in the fourth quarter of fiscal 2006 did not impact our financial condition, results of operations or liquidity.

### *Inventory Costs*

In November 2004, the FASB issued SFAS No. 151, *Inventory Costs, an amendment of Accounting Research Bulletin (ARB) No. 43, Chapter 4* (SFAS 151). SFAS 151 amends the guidance in ARB No 43, Chapter 4, Inventory Pricing, to clarify that abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage) should be recognized as current-period charges. In addition, SFAS 151 requires that the allocation of fixed production overhead to the costs of conversion be based on the normal capacity of the production facilities. The provisions of SFAS 151 are effective for fiscal years beginning after June 15, 2005. The adoption of SFAS 151 in the first quarter of fiscal 2006 did not impact our financial condition, results of operations or liquidity.

## **Critical Accounting Policies and Estimates**

Management's discussion and analysis of the financial condition and results of operations is based upon the consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. We base our estimates and judgments on historical experience, knowledge of current conditions and beliefs of what could occur in the future given available information. We consider the following accounting policies to be both those most important to the portrayal of our financial condition and those that require the most subjective judgment. If actual results differ significantly from management's estimates and projections, there could be a material effect on our financial statements. We also have other policies that we consider key accounting policies, such as our policy for revenue recognition, including the deferral of revenue on sales to distributors until the products are sold to the end user; however, the application of these policies does not require us to make significant estimates or judgments that are difficult or subjective.

### *Inventory Valuation*

Inventories are valued at the lower of cost (first-in, first-out method) or market. Because of the cyclical nature of the semiconductor industry, changes in inventory levels, obsolescence of technology, and product life cycles, we write down inventories to net realizable value. We employ a variety of methodologies to determine the amount of inventory reserves necessary. While a portion of the reserve is determined via reference to the age of inventory and lower of cost or market calculations, an element of the reserve is subject to significant judgments made by us about future demand for our inventory. If actual demand for our products is less than our estimates, additional reserves for existing inventories may need to be recorded in future periods.

### *Allowance for Doubtful Accounts*

We maintain allowances for doubtful accounts, when appropriate, for estimated losses resulting from the inability of our customers to make required payments. If the financial condition of our customers were to deteriorate, our actual losses may exceed our estimates, and additional allowances would be required.

### *Long-Lived Assets*

We review property, plant, and equipment and identified intangible assets for impairment whenever events or changes in circumstances indicate that the carrying value of assets may not be recoverable. Recoverability of these assets is measured by comparison of their carrying value to future undiscounted cash flows the assets are expected to generate

over their remaining economic lives. If such assets are considered to be impaired, the impairment to be recognized in earnings equals the amount by which the carrying value of the assets exceeds their fair market value determined by either a quoted market price, if any, or a value determined by utilizing a discounted cash flow technique. Although we have recognized no material impairment adjustments related to our property, plant, and equipment and identified intangible assets during the past three fiscal years, except those made in conjunction with restructuring actions, deterioration in our business in the future could lead to such impairment adjustments in future

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periods. Evaluation of impairment of long-lived assets requires estimates of future operating results that are used in the preparation of the expected future undiscounted cash flows. Actual future operating results and the remaining economic lives of our long-lived assets could differ from the estimates used in assessing the recoverability of these assets. These differences could result in impairment charges, which could have a material adverse impact on our results of operations. In addition, in certain instances, assets may not be impaired but their estimated useful lives may have decreased. In these situations, we amortize the remaining net book values over the revised useful lives.

### *Goodwill*

In accordance with SFAS 142, *Goodwill and Other Intangible Assets*, goodwill is subject to annual impairment tests, or earlier if indicators of potential impairment exist and suggest that the carrying value of goodwill may not be recoverable from estimated discounted future cash flows. Because we have one reporting segment under SFAS 142, we utilize the entity-wide approach to assess goodwill for impairment and compare our market value to our net book value to determine if an impairment exists. These impairment tests may result in impairment losses that could have a material adverse impact on our results of operations.

### *Accounting for Income Taxes*

We account for income taxes in accordance with SFAS 109, *Accounting for Income Taxes*, which requires that deferred tax assets and liabilities be recognized using enacted tax rates for the effect of temporary differences between the book and tax bases of recorded assets and liabilities. SFAS 109 also requires that deferred tax assets be reduced by a valuation allowance if it is more likely than not that some portion or all of the deferred tax asset will not be realized. We evaluate the realizability of our deferred tax assets quarterly. At October 28, 2006, we had gross deferred tax assets of \$188.4 million primarily resulting from temporary differences between the book and tax bases of assets and liabilities. We have conducted an assessment of the likelihood of realization of those deferred tax assets and concluded that a \$42.6 million valuation allowance is needed to reserve the amount of the deferred tax assets that may not be realized due to the expiration of state credit carryovers. In reaching our conclusion, we evaluated certain relevant criteria including the existence of deferred tax liabilities that can be used to absorb deferred tax assets, the taxable income in prior carryback years that can be used to absorb net operating losses and taxable income in future years. Our judgments regarding future profitability may change due to future market conditions, changes in U.S. or international tax laws and other factors. These changes, if any, may require material adjustments to these deferred tax assets, resulting in a reduction in net income or an increase in net loss in the period when such determinations are made.

In the ordinary course of global business, there are many transactions and calculations where the ultimate tax outcome is uncertain. Some of these uncertainties arise as a consequence of cost reimbursement and royalty arrangements among related entities. Although we believe our estimates are reasonable, no assurance can be given that the final tax outcome of these matters will not be different than that which is reflected in our historical income tax provisions and accruals. Such differences could have a material impact on our income tax provision and operating results in the period in which such determination is made.

### *Stock-Based Compensation*

The adoption of SFAS 123R in the first quarter of fiscal 2006 requires that stock-based compensation expense associated with stock options and related awards be recognized in the statement of income, rather than being disclosed in a pro forma footnote to the consolidated financial statements. Determining the amount of stock-based compensation to be recorded requires us to develop estimates to be used in calculating the grant-date fair value of stock options. We calculate the grant-date fair values using the Black-Scholes valuation model. The use of valuation models requires us to make estimates of the following assumptions:

*Expected volatility* We are responsible for estimating volatility and have considered a number of factors, including third-party estimates, when estimating volatility. For options granted prior to fiscal 2005, we used historical volatility to estimate the grant-date fair value of stock options. We changed our method of estimating expected volatility for all stock options granted after fiscal 2004 from exclusively relying on historical volatility to exclusively relying on implied volatility. This change was the result of a thorough review we undertook which

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included consultations with several third-party advisors. We currently believe that the exclusive use of implied volatility results in a more accurate estimate of the grant-date fair value of employee stock options because it more appropriately reflects the market's expectations of future volatility. Historical volatility during the period commensurate with the expected term of our stock options over the past several years included a period of time that our stock price experienced unprecedented increases and subsequent declines. We believe that this past stock price volatility is unlikely to be indicative of future stock price behavior. Options in our stock are actively traded on several exchanges. Implied volatility is calculated for the period that is commensurate with the option's expected term assumption. Because this term often exceeds the period for which there are exchange-traded options in our stock, statistical techniques are used to derive the implied volatility for traded options with terms commensurate with the option's expected term of five years. This calculation of implied volatility is derived from the closing prices of the Company's stock and exchange traded options from the most recent five trading days prior to the grant date of the employee stock option. In general, the higher the expected volatility used in the Black-Scholes valuation model, the higher the grant-date fair value of the option.

*Expected term* We use historical employee exercise and option expiration data to estimate the expected term assumption for the Black-Scholes grant date valuation. We believe that this historical data is currently the best estimate of the expected term of a new option, and that generally, all of our employees exhibit similar exercise behavior. In general, the longer the expected term used in the Black-Scholes valuation model, the higher the grant-date fair value of the option.

*Risk-free interest rate* The yield on zero-coupon U.S. Treasury securities for a period that is commensurate with the expected term assumption is used as the risk-free interest rate.

*Expected dividend yield* Expected dividend yield is calculated by annualizing the cash dividend declared by our Board of Directors for the current quarter and dividing that result by the closing stock price on the date of grant of the option. Until such time as our Board of Directors declares a cash dividend for an amount that is different from the current quarter's cash dividend, the current dividend will be used in deriving this assumption. Cash dividends are not paid on options, restricted stock or restricted stock units.

The amount of stock-based compensation expense recognized during a period is based on the value of the portion of the awards that are ultimately expected to vest. SFAS 123R requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. The term "forfeitures" is distinct from "cancellations" or "expirations" and represents only the unvested portion of the surrendered option. We currently expect, based on an analysis of our historical forfeitures, that approximately 84% of our options will vest, and therefore have applied an annual forfeiture rate of 3.4% to all unvested options as of October 28, 2006. The 3.4% represents the portion that is expected to be forfeited each year over the vesting period, therefore, the cumulative amount, on a compounded basis, that is expected to be forfeited is approximately 16% of the aggregate options granted. This analysis will be re-evaluated quarterly and the forfeiture rate will be adjusted as necessary. Ultimately, the actual expense recognized over the vesting period will only be for those shares that vest.

## *Contingencies*

From time to time, we receive notices that our products or manufacturing processes may be infringing the patent or intellectual property rights of others. We periodically assess each matter to determine if a contingent liability should be recorded in accordance with SFAS 5, *Accounting for Contingencies*. In making this determination, we may, depending on the nature of the matter, consult with internal and external legal counsel and technical experts. Based on the information we obtain, combined with our judgment regarding all the facts and circumstances of each matter, we determine whether it is probable that a contingent loss may be incurred and whether the amount of such loss can be reasonably estimated. Should a loss be probable and reasonably estimable, we record a contingent loss in accordance

with SFAS 5. In determining the amount of a contingent loss, we consider advice received from experts in the specific matter, current status of legal proceedings, settlement negotiations that may be ongoing, prior case history and other factors. Should the judgments and estimates made by us be incorrect, we may need to record additional contingent losses that could materially adversely impact our results of operations. See Note 13 to our Consolidated Financial Statements contained in Item 8 of this Annual Report on Form 10-K for information regarding our commitments and contingencies.

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**ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

*Interest Rate Exposure*

Our annual interest income would change by approximately \$16 million in fiscal 2006 and \$16 million in fiscal 2005 for each 100 basis point increase or decrease in interest rates. The fair values of our investment portfolio at October 28, 2006 and October 29, 2005 would change by approximately \$6 million and \$14 million, respectively, for each 100 basis point increase or decrease in rates.

*Foreign Currency Exposure*

As more fully described in Note 2 (i) in the Notes to our Consolidated Financial Statements contained in Item 8 of this Annual Report on Form 10-K, we regularly hedge our non-U.S. dollar-based exposures by entering into forward exchange contracts. The terms of these contracts are for periods matching the duration of the underlying exposure and generally range from one month to twelve months. The short-term nature of these contracts has resulted in these instruments having insignificant fair values at October 28, 2006 and October 29, 2005. Currently, our largest foreign currency exposure is the Euro, primarily because our European operations have a higher proportion of our local currency denominated expenses. Relative to foreign currency exposures existing at October 28, 2006, and October 29, 2005, a 10% unfavorable movement in foreign currency exchange rates would not expose us to significant losses in earnings or cash flows or significantly diminish the fair value of our foreign currency financial instruments, primarily due to the short lives of the affected financial instruments that effectively hedge substantially all of our year-end exposures against fluctuations in foreign currency exchange rates. The calculation assumes that each exchange rate would change in the same direction relative to the U.S. dollar. In addition to the direct effects of changes in exchange rates, such changes typically affect the volume of sales or the foreign currency sales price as competitors' products become more or less attractive. Our sensitivity analysis of the effects of changes in foreign currency exchange rates does not factor in a potential change in sales levels or local currency selling prices.

Table of Contents**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA****ANALOG DEVICES, INC.****CONSOLIDATED STATEMENTS OF INCOME****Years ended October 28, 2006, October 29, 2005 and October 30, 2004**

| <b>(thousands, except per share amounts)</b>      | <b>2006</b>  | <b>2005</b>  | <b>2004</b>  |
|---------------------------------------------------|--------------|--------------|--------------|
| <b>Revenue</b>                                    |              |              |              |
| Net sales                                         | \$ 2,573,176 | \$ 2,388,808 | \$ 2,633,800 |
| <b>Costs and Expenses</b>                         |              |              |              |
| Cost of sales(1)                                  | 1,067,036    | 1,005,968    | 1,079,999    |
| Gross margin                                      | 1,506,140    | 1,382,840    | 1,553,801    |
| Operating expenses:                               |              |              |              |
| Research and development(1)                       | 536,747      | 497,097      | 514,442      |
| Selling, marketing, general and administrative(1) | 394,086      | 338,276      | 340,036      |
| Purchased in-process research and development     | 21,711       |              |              |
| Special charges                                   | 1,790        | 31,480       |              |
|                                                   | 954,334      | 866,853      | 854,478      |
| Operating income                                  | 551,806      | 515,987      | 699,323      |
| Nonoperating (income) expenses:                   |              |              |              |
| Interest expense                                  | 52           | 27           | 224          |
| Interest income                                   | (100,169)    | (71,688)     | (36,047)     |
| Other, net                                        | (10,472)     | (42)         | 2,410        |
|                                                   | (110,589)    | (71,703)     | (33,413)     |
| <b>Earnings</b>                                   |              |              |              |
| Income before income taxes and minority interest  | 662,395      | 587,690      | 732,736      |
| Provision for income taxes:                       |              |              |              |
| Payable currently                                 | 142,115      | 158,299      | 135,067      |
| Deferred                                          | (28,454)     | 14,604       | 26,931       |
|                                                   | 113,661      | 172,903      | 161,998      |
| Minority interest                                 | 748          |              |              |
| Net income                                        | \$ 549,482   | \$ 414,787   | \$ 570,738   |
| Shares used to compute earnings per share Basic   | 358,762      | 371,791      | 375,031      |
| Shares used to compute earnings per share Diluted | 370,964      | 383,474      | 392,854      |
| Earnings per share Basic                          | \$ 1.53      | \$ 1.12      | \$ 1.52      |

|                                                           |    |        |    |       |    |       |
|-----------------------------------------------------------|----|--------|----|-------|----|-------|
| Earnings per share    Diluted                             | \$ | 1.48   | \$ | 1.08  | \$ | 1.45  |
| Dividends declared per share                              | \$ | 0.56   | \$ | 0.32  | \$ | 0.20  |
| (1) Includes stock-based compensation expense as follows: |    |        |    |       |    |       |
| Cost of sales                                             | \$ | 7,714  | \$ |       | \$ |       |
| Research and development                                  |    | 34,523 |    | 4,870 |    | 7,255 |
| Selling, marketing, general and administrative            |    | 33,192 |    |       |    |       |
| Total stock-based compensation expense                    | \$ | 75,429 | \$ | 4,870 | \$ | 7,255 |

See accompanying Notes.

Table of Contents**ANALOG DEVICES, INC.****CONSOLIDATED BALANCE SHEETS****October 28, 2006 and October 29, 2005**

| <b>(thousands, except share and per share amounts)</b>           | <b>2006</b>  | <b>2005</b>  |
|------------------------------------------------------------------|--------------|--------------|
| <b>ASSETS</b>                                                    |              |              |
| <b>Current Assets</b>                                            |              |              |
| Cash and cash equivalents                                        | \$ 343,947   | \$ 627,591   |
| Short-term investments                                           | 1,784,387    | 2,078,351    |
| Accounts receivable less allowances of \$2,953 (\$3,439 in 2005) | 329,393      | 320,523      |
| Inventories(1)                                                   | 378,651      | 325,605      |
| Deferred tax assets                                              | 91,045       | 86,430       |
| Deferred compensation plan investments                           | 1,109        | 234,376      |
| Prepaid expenses and other current assets                        | 82,770       | 59,580       |
| Total current assets                                             | 3,011,302    | 3,732,456    |
| <b>Property, Plant and Equipment, at Cost</b>                    |              |              |
| Land and buildings                                               | 353,912      | 345,103      |
| Machinery and equipment                                          | 1,371,332    | 1,323,397    |
| Office equipment                                                 | 78,976       | 83,969       |
| Leasehold improvements                                           | 109,028      | 108,345      |
|                                                                  | 1,913,248    | 1,860,814    |
| Less accumulated depreciation and amortization                   | 1,350,623    | 1,260,908    |
| Net property, plant and equipment                                | 562,625      | 599,906      |
| <b>Other Assets</b>                                              |              |              |
| Deferred compensation plan investments                           | 30,579       | 42,941       |
| Other investments                                                | 850          | 2,424        |
| Goodwill                                                         | 256,209      | 163,373      |
| Intangible assets, net                                           | 42,808       | 4,203        |
| Deferred tax assets                                              | 54,734       | 13,328       |
| Other assets                                                     | 27,744       | 24,580       |
| Total other assets                                               | 412,924      | 250,849      |
|                                                                  | \$ 3,986,851 | \$ 4,583,211 |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>                      |              |              |
| <b>Current Liabilities</b>                                       |              |              |
| Accounts payable                                                 | \$ 124,566   | \$ 128,317   |
| Deferred income on shipments to distributors                     | 149,543      | 121,802      |
| Income taxes payable                                             | 60,956       | 172,277      |
| Deferred compensation plan liability                             | 1,109        | 234,376      |

|                                                                                                                                                    |              |              |
|----------------------------------------------------------------------------------------------------------------------------------------------------|--------------|--------------|
| Accrued liabilities                                                                                                                                | 154,769      | 162,151      |
| Total current liabilities                                                                                                                          | 490,943      | 818,923      |
| <b>Noncurrent Liabilities</b>                                                                                                                      |              |              |
| Deferred income taxes                                                                                                                              | 3,414        | 1,735        |
| Deferred compensation plan liability                                                                                                               | 30,633       | 44,657       |
| Other noncurrent liabilities                                                                                                                       | 25,851       | 26,395       |
| Total noncurrent liabilities                                                                                                                       | 59,898       | 72,787       |
| Minority interest                                                                                                                                  | 217          |              |
| Commitments and contingencies (Note 13)                                                                                                            |              |              |
| <b>Shareholders' Equity</b>                                                                                                                        |              |              |
| Preferred stock, \$1.00 par value, 471,934 shares authorized, none outstanding                                                                     |              |              |
| Common stock, \$0.162/3 par value, 1,200,000,000 shares authorized,<br>342,000,004 shares issued and outstanding (366,831,612 on October 29, 2005) | 57,001       | 61,139       |
| Capital in excess of par value                                                                                                                     |              | 380,206      |
| Retained earnings                                                                                                                                  | 3,378,999    | 3,269,420    |
| Accumulated other comprehensive loss                                                                                                               | (207)        | (19,264)     |
| Total shareholders' equity                                                                                                                         | 3,435,793    | 3,691,501    |
|                                                                                                                                                    | \$ 3,986,851 | \$ 4,583,211 |

(1) Includes \$3,703 related to stock-based compensation at October 28, 2006.

See accompanying Notes.

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## ANALOG DEVICES, INC.

**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**  
**Years ended October 28, 2006, October 29, 2005 and October 30, 2004**

| (thousands)                                                                  | Common Stock |           | Capital in<br>Excess of | Retained     | Accumulated<br>Other<br>Comprehensive<br>Income(Loss<br>) |
|------------------------------------------------------------------------------|--------------|-----------|-------------------------|--------------|-----------------------------------------------------------|
|                                                                              | Shares       | Amount    | Par Value               | Earnings     |                                                           |
| <b>BALANCE, NOVEMBER 1, 2003</b>                                             | 370,234      | \$ 61,707 | \$ 745,501              | \$ 2,477,900 | \$ 2,966                                                  |
| <b>Activity in Fiscal 2004</b>                                               |              |           |                         |              |                                                           |
| Net income 2004                                                              |              |           |                         | 570,738      |                                                           |
| Dividends declared and paid                                                  |              |           |                         | (75,007)     |                                                           |
| Issuance of stock under stock plans<br>and other, net of repurchases         | 9,433        | 1,572     | 123,684                 |              |                                                           |
| Tax benefit-stock options                                                    |              |           | 20,279                  |              |                                                           |
| Issuance of common stock in<br>connection with acquisitions                  | 37           | 6         | 955                     |              |                                                           |
| Amortization of deferred stock-based<br>compensation related to acquisitions |              |           | 5,571                   |              |                                                           |
| Other comprehensive income                                                   |              |           |                         |              | 783                                                       |
| Common stock repurchased                                                     | (3,864)      | (644)     | (136,439)               |              |                                                           |
| <b>BALANCE, OCTOBER 30, 2004</b>                                             | 375,840      | 62,641    | 759,551                 | 2,973,631    | 3,749                                                     |
| <b>Activity in Fiscal 2005</b>                                               |              |           |                         |              |                                                           |
| Net Income 2005                                                              |              |           |                         | 414,787      |                                                           |
| Dividends declared and paid                                                  |              |           |                         | (118,998)    |                                                           |
| Issuance of stock under stock plans<br>and other, net of repurchases         | 5,606        | 934       | 89,701                  |              |                                                           |
| Tax benefit-stock options                                                    |              |           | 50,374                  |              |                                                           |
| Issuance of common stock in<br>connection with acquisitions                  | 10           | 1         | 541                     |              |                                                           |
| Amortization of deferred stock-based<br>compensation related to acquisitions |              |           | 3,095                   |              |                                                           |
| Other comprehensive loss                                                     |              |           |                         |              | (23,013)                                                  |
| Common stock repurchased                                                     | (14,624)     | (2,437)   | (523,056)               |              |                                                           |
| <b>BALANCE, OCTOBER 29, 2005</b>                                             | 366,832      | 61,139    | 380,206                 | 3,269,420    | (19,264)                                                  |
| <b>Activity in Fiscal 2006</b>                                               |              |           |                         |              |                                                           |
| Net Income 2006                                                              |              |           |                         | 549,482      |                                                           |
| Dividends declared and paid                                                  |              |           |                         | (201,451)    |                                                           |
| Issuance of stock under stock plans<br>and other, net of repurchases         | 5,824        | 971       | 94,408                  |              |                                                           |
| Tax benefit-stock options                                                    |              |           | 228,258                 |              |                                                           |

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|                                                                           |          |           |           |              |          |
|---------------------------------------------------------------------------|----------|-----------|-----------|--------------|----------|
| Stock-based compensation expense                                          |          |           | 77,573    |              |          |
| Issuance of common stock in connection with acquisitions                  | 10       | 2         | 541       |              |          |
| Amortization of deferred stock-based compensation related to acquisitions |          |           | 433       |              |          |
| Other comprehensive income                                                |          |           |           |              | 19,057   |
| Common stock repurchased                                                  | (30,666) | (5,111)   | (781,419) | (238,452)    |          |
| <b>BALANCE, OCTOBER 28, 2006</b>                                          | 342,000  | \$ 57,001 | \$        | \$ 3,378,999 | \$ (207) |

See accompanying Notes.

**Table of Contents****ANALOG DEVICES, INC.****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME****Years ended October 28, 2006, October 29, 2005 and October 30, 2004**

| <b>(thousands)</b>                                                                                                                                            | <b>2006</b> | <b>2005</b> | <b>2004</b> |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|-------------|-------------|
| Net income                                                                                                                                                    | \$ 549,482  | \$ 414,787  | \$ 570,738  |
| Foreign currency translation adjustment                                                                                                                       | 5,838       | (1,595)     | 1,328       |
| Minimum pension liability adjustment (net of taxes of \$753 in 2006, \$1,324 in 2005 and \$585 in 2004)                                                       | 1,398       | (2,461)     | (1,085)     |
| Net unrealized gains (losses) on securities:                                                                                                                  |             |             |             |
| Net unrealized holding gains (losses) (net of taxes of \$4,034 in 2006, \$6,239 in 2005 and \$564 in 2004) on securities classified as short-term investments | 7,492       | (11,586)    | (1,046)     |
| Net unrealized holding (losses) gains (net of taxes of \$235 in 2006, \$500 in 2005 and \$652 in 2004) on securities classified as other investments          | (436)       | (930)       | 1,210       |
| Less: reclassification adjustment for losses included in Net income                                                                                           |             |             | 1,090       |
| Net unrealized gains (losses) on securities                                                                                                                   | 7,056       | (12,516)    | 1,254       |
| Derivative instruments designated as cash flow hedges:                                                                                                        |             |             |             |
| Changes in fair value of derivatives                                                                                                                          | 4,876       | (4,718)     | 5,526       |
| Less: reclassification into earnings                                                                                                                          | (111)       | (1,723)     | (6,240)     |
| Net change in derivative instruments designated as cash flow hedges                                                                                           | 4,765       | (6,441)     | (714)       |
| Other comprehensive income (loss)                                                                                                                             | 19,057      | (23,013)    | 783         |
| Comprehensive income                                                                                                                                          | \$ 568,539  | \$ 391,774  | \$ 571,521  |

See accompanying Notes.

**Table of Contents****ANALOG DEVICES, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**Years ended October 28, 2006, October 29, 2005 and October 30, 2004**

| <b>(thousands)</b>                                                               | <b>2006</b> | <b>2005</b> | <b>2004</b> |
|----------------------------------------------------------------------------------|-------------|-------------|-------------|
| <b>Operations</b>                                                                |             |             |             |
| Cash flows from operations:                                                      |             |             |             |
| Net income                                                                       | \$ 549,482  | \$ 414,787  | \$ 570,738  |
| Adjustments to reconcile net income to net cash provided by operations:          |             |             |             |
| Depreciation                                                                     | 166,851     | 153,181     | 149,920     |
| Amortization of intangibles                                                      | 5,312       | 2,383       | 2,710       |
| Stock-based compensation expense                                                 | 75,429      | 4,870       | 7,255       |
| Loss on sale of investments                                                      |             |             | 1,676       |
| Minority interest                                                                | (748)       |             |             |
| Non-cash portion of special charges                                              | 459         |             |             |
| Gain on sale of product line                                                     | (13,027)    |             |             |
| Purchased in-process research and development                                    | 21,711      |             |             |
| Other non-cash expense                                                           | 784         | 1,822       | 2,404       |
| Excess tax benefit stock options                                                 | (181,178)   |             |             |
| Tax benefit stock options                                                        |             | 50,374      | 20,279      |
| Deferred income taxes                                                            | (28,454)    | 14,604      | 26,931      |
| Change in operating assets and liabilities:                                      |             |             |             |
| (Increase) decrease in accounts receivable                                       | (6,705)     | 5,298       | (30,723)    |
| (Increase) decrease in inventories                                               | (52,043)    | 22,797      | (58,637)    |
| Increase in prepaid expenses and other current assets                            | (17,327)    | (7,320)     | (15,472)    |
| Decrease (increase) in investments trading                                       | 245,629     | 41,234      | (14,543)    |
| Increase (decrease) in accounts payable, deferred income and accrued liabilities | 5,682       | (5,937)     | 70,983      |
| (Decrease) increase in deferred compensation plan liability                      | (247,291)   | (43,271)    | 13,869      |
| Increase in income taxes payable                                                 | 96,336      | 15,003      | 27,590      |
| Increase in other liabilities                                                    | 200         | 2,879       | 3,065       |
| Total adjustments                                                                | 71,620      | 257,917     | 207,307     |
| Net cash provided by operations                                                  | 621,102     | 672,704     | 778,045     |
| <b>Investing Activities</b>                                                      |             |             |             |
| Cash flows from investing:                                                       |             |             |             |
| Additions to property, plant and equipment, net                                  | (129,297)   | (85,457)    | (146,245)   |
| Purchases of short-term available-for-sale investments                           | (2,483,123) | (3,457,017) | (4,013,786) |
| Maturities of short-term available-for-sale investments                          | 2,788,717   | 3,526,871   | 3,445,015   |
| Proceeds from sale of investment                                                 |             |             | 35,574      |
| Proceeds from sale of fixed assets                                               | 1,735       |             |             |
| Proceeds from sale of product line                                               | 23,070      |             |             |
| Payments for acquisitions, net of cash acquired                                  | (157,017)   |             |             |

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|                                                      |             |            |            |
|------------------------------------------------------|-------------|------------|------------|
| Decrease (increase) in other assets                  | 723         | 5,644      | (10,449)   |
| Net cash provided (used) by investing activities     | 44,808      | (9,959)    | (689,891)  |
| <b>Financing Activities</b>                          |             |            |            |
| Cash flows from financing activities:                |             |            |            |
| Dividend payments to shareholders                    | (201,451)   | (118,998)  | (75,007)   |
| Repurchase of common stock                           | (1,024,982) | (525,493)  | (137,083)  |
| Proceeds from employee stock plans                   | 94,392      | 89,402     | 124,115    |
| Excess tax benefit stock options                     | 181,178     |            |            |
| Net cash used by financing activities                | (950,863)   | (555,089)  | (87,975)   |
| Effect of exchange rate changes on cash              | 1,309       | 995        | 887        |
| Net (decrease) increase in cash and cash equivalents | (283,644)   | 108,651    | 1,066      |
| Cash and cash equivalents at beginning of year       | 627,591     | 518,940    | 517,874    |
| Cash and cash equivalents at end of year             | \$ 343,947  | \$ 627,591 | \$ 518,940 |

See accompanying Notes.

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**ANALOG DEVICES, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**Years ended October 28, 2006, October 29, 2005 and October 30, 2004**  
*(all tabular amounts in thousands except per share amounts)*

**1. Description of Business**

Analog Devices, Inc. ( Analog Devices or the Company ) is a world leader in the design, manufacture and marketing of high-performance analog, mixed-signal and digital signal processing integrated circuits used in industrial, communication, computer and consumer applications. Since the Company's inception in 1965, it has focused on solving the engineering challenges associated with signal processing in electronic equipment. Real world signal processing describes the process of converting real-world phenomena such as temperature, motion, pressure, light and sound into electrical signals to be used in a wide array of electronic equipment ranging from industrial process control, factory automation systems, defense electronics, portable wireless communications devices, cellular basestations, central office networking equipment, computers, automobiles, medical imaging equipment, digital cameras and digital televisions. Signal processing technology is a critical element of high-speed communications, digital entertainment, and other consumer, computer and industrial applications. As new generations of digital applications evolve, they generate new needs for high-performance analog signal processing and digital signal processing, or DSP, technology. The Company produces a wide range of products that are designed to meet the signal processing technology needs of a broad base of customers.

**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 intercompany accounts and transactions are eliminated. Amounts pertaining to the non-controlling ownership interest held by third parties in the operating results and financial position of the Company's majority owned subsidiaries are reported as minority interest. The Company's fiscal year is the 52-week or 53-week period ending on the Saturday closest to the last day in October. Fiscal years 2006, 2005 and 2004 were 52-week periods. Fiscal year 2007 is a 53-week period.

Certain amounts reported in previous years have been reclassified to conform to the fiscal 2006 presentation. Such reclassifications were immaterial.

***b. Cash, Cash Equivalents and Short-term 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. Cash, cash equivalents and short-term investments consist primarily of corporate obligations such as commercial paper and corporate bonds, and Treasury and government agency notes and bonds. They also include bank time deposits, institutional money market funds and taxable municipal bonds.

The Company classifies its investments in readily marketable debt and equity securities as held-to-maturity, available-for-sale or trading at the time of purchase. There were no transfers between investment classifications in any of the fiscal years presented. 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 cash equivalents and short-term investments are classified as available-for-sale. Available-for-sale securities are

carried at fair value with unrealized gains and losses, net of related tax, if any, reported in accumulated other comprehensive income (loss), which is a separate component of shareholders' equity. The Company's deferred compensation plan investments are classified as trading (see Note 7). Realized gains and losses, as well as interest, and dividends on all securities, are included in earnings.

The Company's short-term investments are adjusted to fair value at the end of each quarter. These adjustments to fair value are recorded as an increase or decrease in accumulated other comprehensive income (loss). No realized gains or losses were recorded during any of the fiscal years presented.

Table of Contents**ANALOG DEVICES, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The Company periodically evaluates these investments for impairment in accordance with EITF Issue No. 03-01, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*. When a decline in fair value is deemed to be other-than-temporary, the Company records an impairment adjustment in the statement of income. There were no other-than-temporary impairments of short-term investments in any of the fiscal years presented.

Unrealized gains and losses on available-for-sale short-term investments were as follows:

|                       | <b>2006</b> | <b>2005</b> | <b>2004</b> |
|-----------------------|-------------|-------------|-------------|
| Unrealized gains      | \$          | \$ 532      | \$ 2,712    |
| Unrealized losses     | (7,908)     | (19,967)    | (4,322)     |
| Net unrealized losses | \$ (7,908)  | \$ (19,435) | \$ (1,610)  |

Unrealized gains and losses in all fiscal years presented relate solely to US Government Treasury, agency and municipal bonds.

There were no unrealized gains and losses on held-to-maturity investments in any of the fiscal years presented.

There were no cash equivalents or short-term investments classified as trading at October 28, 2006 and October 29, 2005. All of the Company's short-term investments were classified as available-for-sale. Short-term investments with maturities in excess of one year are classified as short term as they are available-for-sale securities and are available to be used in current operations. The components of the Company's cash, cash equivalents and short-term investments as of October 28, 2006 and October 29, 2005 were as follows:

|                                               | <b>2006</b>       | <b>2005</b>       |
|-----------------------------------------------|-------------------|-------------------|
| <b>Cash and cash equivalents:</b>             |                   |                   |
| Cash                                          | \$ 42,944         | \$ 39,271         |
| Available-for-sale:                           |                   |                   |
| Institutional money market funds              | 42,803            | 417,238           |
| Corporate obligations                         | 104,925           | 31,223            |
| Held-to-maturity:                             |                   |                   |
| Euro time deposits                            | 153,275           | 139,859           |
| <b>Total cash and cash equivalents</b>        | <b>\$ 343,947</b> | <b>\$ 627,591</b> |
| <b>Short-term investments:</b>                |                   |                   |
| Securities with one year or less to maturity: |                   |                   |
| Corporate obligations                         | \$ 856,196        | \$ 1,008,115      |

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|                                                      |                     |                     |
|------------------------------------------------------|---------------------|---------------------|
| U.S. Government Treasury, agency and municipal notes | 801,821             | 369,046             |
| Total maturities less than 1 year                    | 1,658,017           | 1,377,161           |
| Securities with greater than one year to maturity:   |                     |                     |
| U.S. Government Treasury, agency and municipal bonds | 126,370             | 701,190             |
| Total maturities greater than 1 year                 | 126,370             | 701,190             |
| <b>Total short-term investments</b>                  | <b>\$ 1,784,387</b> | <b>\$ 2,078,351</b> |

Table of Contents**ANALOG DEVICES, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)*****c. Supplemental Cash Flow Statement Information***

|                                       | <b>2006</b> | <b>2005</b> | <b>2004</b> |
|---------------------------------------|-------------|-------------|-------------|
| Cash paid during the fiscal year for: |             |             |             |
| Income taxes                          | \$ 61,099   | \$ 93,185   | \$ 84,987   |
| Interest                              | \$ 32       | \$ 27       | \$ 224      |

The Company's primary non-cash financing activities in fiscal 2006, 2005 and 2004 resulted from the amortization of unearned stock compensation expense associated with the Company's 2001 acquisitions for which 1,462,066 shares of common stock were issued (valued at approximately \$81.8 million) and unvested stock options with an intrinsic value of approximately \$11.9 million were assumed. As a result, the Company recognized stock-based compensation expense over the vesting period of approximately \$0.5 million in fiscal 2006, \$3.6 million in fiscal 2005 and \$6.1 million in fiscal 2004.

***d. Inventories***

Inventories are valued at the lower of cost (first-in, first-out method) or market. Inventories at October 28, 2006 and October 29, 2005 were as follows:

|                   | <b>2006</b> | <b>2005</b> |
|-------------------|-------------|-------------|
| Raw materials     | \$ 16,430   | \$ 12,414   |
| Work in process   | 264,076     | 240,064     |
| Finished goods    | 98,145      | 73,127      |
| Total inventories | \$ 378,651  | \$ 325,605  |

***e. Property, Plant and Equipment***

Property, plant and equipment is recorded at cost less allowances for depreciation. 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          | 3-8 years      |
| Office equipment               | 3-8 years      |

Total depreciation of property, plant and equipment was \$167 million, \$153 million and \$150 million in fiscal 2006, 2005 and 2004, respectively.

The Company reviews property, plant, and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount of assets may not be recoverable. Recoverability of these assets is measured by comparison of their carrying amount to the future undiscounted cash flows the assets are expected to generate over their remaining economic lives. If such assets are considered to be impaired, the impairment to be recognized in earnings equals the amount by which the carrying value of the assets exceeds their fair market value determined by either a quoted market price, if any, or a value determined by utilizing a discounted cash flow technique. If such assets are not impaired, but their useful lives have decreased, the remaining net book value is amortized over the revised useful life.

Table of Contents**ANALOG DEVICES, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)***f. Goodwill and Intangible Assets**Goodwill*

The Company annually evaluates goodwill for impairment as well as whenever events or changes in circumstances suggest that the carrying value of goodwill may not be recoverable. Because the Company has one reporting segment under SFAS 142, the Company utilizes the entity-wide approach for assessing goodwill for impairment and compares its market value to its net book value to determine if an impairment exists. No impairment of goodwill resulted from the Company's most recent evaluation of goodwill for impairment, which occurred in the fourth quarter of fiscal 2006. No impairment of goodwill resulted in any of the fiscal years presented. The Company's next annual impairment assessment will be made in the fourth quarter of fiscal 2007 unless indicators arise that would require the Company to reevaluate at an earlier date. The following table presents the changes in goodwill during fiscal 2006 and 2005:

|                                         | <b>2006</b> | <b>2005</b> |
|-----------------------------------------|-------------|-------------|
| Balance at beginning of year            | \$ 163,373  | \$ 163,373  |
| Acquisition of TTPCom                   | 812         |             |
| Acquisition of Integrant Technologies   | 80,641      |             |
| Acquisition of AudioAsics               | 7,250       |             |
| Foreign currency translation adjustment | 4,133       |             |
| Balance at end of year                  | \$ 256,209  | \$ 163,373  |

See Note 6 for additional information on the Company's fiscal 2006 acquisitions.

*Intangible Assets*

The Company reviews identified intangible assets for impairment whenever events or changes in circumstances indicate that the carrying value of assets may not be recoverable. Recoverability of these assets is measured by comparison of their carrying value to future undiscounted cash flows the assets are expected to generate over their remaining economic lives. If such assets are considered to be impaired, the impairment to be recognized in earnings equals the amount by which the carrying value of the assets exceeds their fair market value determined by either a quoted market price, if any, or a value determined by utilizing a discounted cash flow technique.

During fiscal 2006, the Company purchased certain assets from TTPCom Limited (TTPCom), substantially all of the shares of Integrant Technologies, Inc. and all of the shares of AudioAsics A/S (AudioAsics). See Note 6 for additional information on the Company's fiscal 2006 acquisitions. As a result of these acquisitions, the Company recorded \$43.1 million of intangible assets at the current exchange rate on the date of acquisition. The acquired intangible assets consisted of the following:

**Amortization**

|                        | <b>TTPCom</b> | <b>Integrand</b> | <b>AudioAsics</b> | <b>Period</b> |
|------------------------|---------------|------------------|-------------------|---------------|
| Technology-based       | \$ 11,600     | \$ 18,027        | \$ 5,700          | 5 years       |
| Tradename              |               | 458              |                   | 2 years       |
| Customer relationships | 1,600         | 2,562            | 2,600             | 2 or 5 years* |
| Other                  |               | 549              |                   | 5 years       |
| Total                  | \$ 13,200     | \$ 21,596        | \$ 8,300          |               |

\* Acquisition related customer relationship intangible assets related to Integrand will be amortized over two years and customer relationship intangible assets for TTPCom and AudioAsics will be amortized over five years.

**Table of Contents****ANALOG DEVICES, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Intangible assets, which will continue to be amortized, consisted of the following:

|                        | <b>October 28, 2006</b>              |                                     | <b>October 29, 2005</b>              |                                     |
|------------------------|--------------------------------------|-------------------------------------|--------------------------------------|-------------------------------------|
|                        | <b>Gross<br/>Carrying<br/>Amount</b> | <b>Accumulated<br/>Amortization</b> | <b>Gross<br/>Carrying<br/>Amount</b> | <b>Accumulated<br/>Amortization</b> |
| Technology-based       | \$ 53,177                            | \$ 17,714                           | \$ 17,423                            | \$ 13,567                           |
| Tradename              | 1,635                                | 995                                 | 1,167                                | 820                                 |
| Customer relationships | 6,920                                | 707                                 | 92                                   | 92                                  |
| Other                  | 6,617                                | 6,125                               | 6,055                                | 6,055                               |
| Total                  | \$ 68,349                            | \$ 25,541                           | \$ 24,737                            | \$ 20,534                           |

Intangible assets acquired prior to the third quarter of fiscal 2006 continue to be amortized on a straight-line basis over their estimated useful lives, which range from five to ten years. The remaining amortization expense will be recognized over a weighted-average period of approximately 2.0 years. The \$13.2 million of intangible assets acquired during the third quarter of fiscal 2006 and the \$29.9 million acquired during the fourth quarter of fiscal 2006 will be amortized over their estimated useful lives of two to five years using an accelerated method of amortization that is expected to reflect the estimated pattern of economic use.

Amortization expense related to intangibles was \$5.3 million, \$2.4 million and \$2.7 million in fiscal 2006, 2005 and 2004, respectively.

The Company expects annual amortization expense for these intangible assets to be:

| <b>Fiscal Years</b> | <b>Amortization<br/>Expense</b> |
|---------------------|---------------------------------|
| 2007                | \$ 12,965                       |
| 2008                | \$ 12,168                       |
| 2009                | \$ 9,135                        |
| 2010                | \$ 5,710                        |
| 2011                | \$ 2,646                        |
| 2012                | \$ 184                          |

***g. Grant Accounting***

Certain of the Company's foreign subsidiaries have received various grants from governmental agencies. These grants include capital, employment and research and development grants. Capital grants for the acquisition of property and equipment are netted against the related capital expenditures and amortized as a credit to depreciation expense over

the useful life of the related asset. Employment grants, which relate to employee hiring and training, and research and development grants are recognized in earnings in the period in which the related expenditures are incurred by the Company.

***h. Translation of Foreign Currencies***

The functional currency for the Company's foreign sales and research and development operations is the applicable local currency. Gains and losses resulting from translation of these foreign currencies into U.S. dollars are recorded in accumulated other comprehensive (loss) income. Transaction gains and losses and remeasurement of foreign currency denominated assets and liabilities 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 2006, 2005 or 2004.

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**ANALOG DEVICES, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

***i. Derivative Instruments and Hedging Agreements***

The Company enters into forward foreign exchange contracts 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 Japanese Yen, Euro, and British Pounds Sterling. 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. In accordance with Statement of Financial Accounting Standards No. 133 (SFAS 133), *Accounting for Derivative Instruments and Hedging Activities*, hedges related to anticipated transactions are designated and documented at the inception of the respective hedges as cash flow hedges and are evaluated for effectiveness monthly.

The Company records all derivative financial instruments in the consolidated financial statements in other current assets or accrued liabilities, depending on their net position, at fair value regardless of the purpose or intent for holding the instrument. Changes in the fair value of the derivative financial instruments are either recognized periodically in earnings or in shareholders' equity as a component of accumulated other comprehensive income (OCI) or loss depending on whether the derivative financial instrument qualifies for hedge accounting as defined by SFAS 133. Changes in fair values of derivatives not qualifying for hedge accounting are reported in earnings as they occur.

*Foreign Exchange Exposure Management* The Company has significant international sales and purchase transactions in foreign currencies and has a policy of hedging forecasted and actual foreign currency risk with forward foreign exchange contracts. The Company's forward foreign exchange contracts are denominated in Japanese Yen, British Pounds Sterling and the Euro and are for periods consistent with the terms of the underlying transactions, generally one year or less. Derivative instruments are employed to eliminate or minimize certain foreign currency exposures that can be confidently identified and quantified. In accordance with SFAS 133, hedges related to anticipated transactions are designated and documented at the inception of the respective hedges as cash flow hedges and are evaluated for effectiveness monthly. As the terms of the contract and the underlying transaction are matched at inception, forward contract effectiveness is calculated by comparing the change in fair value of the contract to the change in the forward value of the anticipated transaction, with the effective portion of the gain or loss on the derivative instrument reported as a component of OCI in shareholders' equity and reclassified into earnings in the same period during which the hedged transaction affects earnings. Any residual change in fair value of the instruments, or ineffectiveness, is recognized immediately in other income/expense. No ineffectiveness was recognized in fiscal 2006, 2005 or 2004.

Additionally, the Company enters into forward foreign currency contracts that economically hedge the gains and losses generated by the remeasurement of certain recorded assets and liabilities in a non-functional currency. Changes in the fair value of these undesignated hedges are recognized in other income/expense immediately as an offset to the changes in the fair value of the asset or liability 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 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.

Table of Contents**ANALOG DEVICES, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Accumulated Derivative Gains or Losses**

The following table summarizes activity in accumulated other comprehensive (loss) income related to derivatives classified as cash flow hedges held by the Company during the period of October 31, 2004 through October 28, 2006:

|                                                                 | <b>2006</b> | <b>2005</b> |
|-----------------------------------------------------------------|-------------|-------------|
| Balance at beginning of year                                    | \$ (4,346)  | \$ 2,095    |
| Changes in fair value of derivatives gain (loss)                | 4,876       | (4,718)     |
| Reclassifications into earnings from other comprehensive income | (111)       | (1,723)     |
| Balance at end of year                                          | \$ 419      | \$ (4,346)  |

All of the accumulated gain will be reclassified into earnings over the next twelve months.

***j. Fair Values of Financial Instruments***

The following estimated fair value amounts have been determined by the Company using available market information and appropriate valuation methodologies. The estimates presented herein are not necessarily indicative of the amounts that the Company could realize in a current market exchange.

|                                                                         | <b>October 28, 2006</b>    |                   | <b>October 29, 2005</b>    |                   |
|-------------------------------------------------------------------------|----------------------------|-------------------|----------------------------|-------------------|
|                                                                         | <b>Carrying<br/>Amount</b> | <b>Fair Value</b> | <b>Carrying<br/>Amount</b> | <b>Fair Value</b> |
| <b>Assets:</b>                                                          |                            |                   |                            |                   |
| Cash and cash equivalents                                               | \$ 343,947                 | \$ 343,947        | \$ 627,591                 | \$ 627,591        |
| Short-term investments                                                  | 1,784,387                  | 1,784,387         | 2,078,351                  | 2,078,351         |
| Deferred compensation investments                                       | 31,688                     | 31,688            | 277,317                    | 277,317           |
| Other investments                                                       | 850                        | 850               | 2,424                      | 2,424             |
| <b>Foreign Currency Instruments &amp; Interest<br/>Rate Agreements:</b> |                            |                   |                            |                   |
| Interest rate swap and cap agreements                                   | 77                         | 77                | 303                        | 303               |
| Forward foreign currency exchange contracts                             | 272                        | 272               | (1,443)                    | (1,443)           |

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*** These investments, except for those classified as held-to-maturity, which are carried at amortized cost, are adjusted to fair value based on quoted market values.

***Deferred compensation plan investments and other investments*** The fair value of these investments is based on quoted market values, with the exception of private-company equity investments that are carried at cost, adjusted for impairment charges.

***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, which includes derivatives that are accounted for as cash flow hedges and those that are not designated as cash flow hedges, is based on the estimated amount at which they could be settled based on forward market exchange rates.

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**ANALOG DEVICES, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

***k. Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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 and identified intangible assets, allowances for doubtful accounts and customer returns, the net realizable value of inventory, potential reserves relating to litigation matters, accrued liabilities, accrued taxes, deferred tax valuation allowances, assumptions pertaining to share-based payments and other reserves. Actual results could differ from those estimates, and such differences may be material to the financial statements.

***l. Concentrations of 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 and long-term investments with high credit quality financial institutions and monitors the amount of credit exposure to any one financial institution and issuer.

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

***m. Concentration of Other Risks***

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

***n. Revenue Recognition***

Revenue and the related cost of sales on shipments to distributors are deferred until the distributors resell the products to end-users. Deferred amounts are presented net and included as Deferred income on shipments to distributors in the

Company's consolidated balance sheets. Revenue from product sales to end-users is recognized when title passes, which for shipments to certain foreign countries is subsequent to product shipment. Title for these shipments ordinarily passes within a week of shipment. A reserve for sales returns and allowances for customers is recorded based on historical experience or specific identification of an event necessitating a reserve.

Shipping costs are charged to cost of sales as incurred.

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The Company generally offers a 12-month warranty for its products. The Company's warranty policy provides for replacement of the defective product. Specific accruals are recorded for known product warranty issues. Product warranty expenses during fiscal 2006, 2005 and 2004 were not material.

***o. Accumulated Other Comprehensive (Loss) Income***

Other comprehensive (loss) income includes certain transactions that have generally been reported in the consolidated statement of shareholders' equity. Accumulated other comprehensive (loss) income is comprised of minimum pension liability adjustments, unrealized gains (losses) on available-for-sale securities, foreign currency translation adjustments and net unrealized gain (loss) on derivative instruments designated as cash flow hedges.

The components of accumulated other comprehensive income at October 28, 2006 and October 29, 2005 consisted of the following:

|                                                     | <b>2006</b> | <b>2005</b> |
|-----------------------------------------------------|-------------|-------------|
| Minimum pension liability adjustments               | \$ (4,669)  | \$ (6,067)  |
| Unrealized losses on available-for-sale securities  | (5,371)     | (12,427)    |
| Foreign currency translation                        | 9,414       | 3,576       |
| Unrealized gains (losses) on derivative instruments | 419         | (4,346)     |
| Total accumulated other comprehensive loss          | \$ (207)    | \$ (19,264) |

***p. Advertising Expense***

Advertising costs are expensed as incurred. Advertising expense was \$10.9 million in fiscal 2006, \$10.5 million in fiscal 2005 and \$11.9 million in fiscal 2004.

***q. 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 are expected to 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.

***r. 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 potential future issuances of common stock relating to stock option programs and other potentially dilutive securities using the treasury stock method. In calculating diluted

earnings per share, the dilutive effect of stock options is computed using the average market price for the respective period. In addition, under SFAS 123R, the assumed proceeds under the treasury stock method include the average unrecognized compensation expense of stock options that are in-the-money. This results in the assumed buyback of additional shares, thereby reducing the dilutive impact of stock options. Potential shares related to certain of the Company's outstanding stock options were excluded because they were anti-dilutive. Those potential shares, determined based on the weighted average exercise prices during the respective years, related to the Company's outstanding stock options could be dilutive in the future.

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The following table sets forth the computation of basic and diluted earnings per share:

|                                                          | 2006       | 2005       | 2004       |
|----------------------------------------------------------|------------|------------|------------|
| <b>Basic:</b>                                            |            |            |            |
| Net income                                               | \$ 549,482 | \$ 414,787 | \$ 570,738 |
| Weighted average shares outstanding                      | 358,762    | 371,791    | 375,031    |
| Earnings per share                                       | \$ 1.53    | \$ 1.12    | \$ 1.52    |
| <b>Diluted:</b>                                          |            |            |            |
| Net income                                               | \$ 549,482 | \$ 414,787 | \$ 570,738 |
| Weighted average shares outstanding                      | 358,762    | 371,791    | 375,031    |
| Assumed exercise of common stock equivalents             | 12,202     | 11,683     | 17,823     |
| Weighted average common and common equivalent shares     | 370,964    | 383,474    | 392,854    |
| Earnings per share                                       | \$ 1.48    | \$ 1.08    | \$ 1.45    |
| <b>Weighted average anti-dilutive shares related to:</b> |            |            |            |
| Outstanding stock options                                | 52,054     | 46,452     | 14,058     |

***s. Stock-Based Compensation***

On December 16, 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004), *Share-Based Payment* (SFAS 123R). SFAS 123R supersedes APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and amends SFAS No. 95, *Statement of Cash Flows*. Generally, the approach in SFAS 123R is similar to the approach described in SFAS 123 *Accounting for Stock-Based Compensation*. However, SFAS 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement over their vesting period based on their fair values at the date of grant. Pro forma disclosure is no longer an alternative.

On October 30, 2005 (the first day of its 2006 fiscal year), the Company adopted SFAS 123R using the modified prospective method as permitted under SFAS 123R. Under this transition method, compensation cost recognized in fiscal 2006 includes: (a) compensation cost for all share-based payments granted prior to but not yet vested as of October 29, 2005, based on the grant-date fair value estimated in accordance with the provisions of SFAS 123, and (b) compensation cost for all share-based payments granted subsequent to October 29, 2005, based on the grant-date fair value estimated in accordance with the provisions of SFAS 123R. In accordance with the modified prospective method of adoption, the Company's results of operations and financial position for prior periods have not been restated.

See Note 3 for additional information relating to stock-based compensation.

***t. New Accounting Standards***

*Accounting for Prior Year Misstatements*

In September 2006, the United States Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin (SAB) No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements* (SAB 108). This SAB provides guidance on the consideration of the effects of prior year misstatements in quantifying current year misstatements for the purpose of a materiality assessment. SAB 108 establishes an approach that requires quantification of financial statement errors based on the effects of each of the company's balance sheet and statement of operations financial statements and the related financial statement disclosures. The SAB permits existing public companies to record the cumulative effect of initially

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**ANALOG DEVICES, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

applying this approach in the first year ending after November 15, 2006 by recording the necessary correcting adjustments to the carrying values of assets and liabilities as of the beginning of that year with the offsetting adjustment recorded to the opening balance of retained earnings. Additionally, the use of the cumulative effect transition method requires detailed disclosure of the nature and amount of each individual error being corrected through the cumulative adjustment and how and when it arose. The Company is currently evaluating the impact, if any, that SAB 108 may have on the Company's financial conditions, results of operations or liquidity.

*Accounting for Defined Benefit Pension and Other Postretirement Plans*

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard (SFAS) No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans - An Amendment of FASB Statements No. 87, 88, 106, and 132R* (SFAS 158). SFAS 158 requires companies to recognize the funded status of pension and other postretirement benefit plans on sponsoring employers' balance sheets and to recognize changes in the funded status in the year the changes occur. It also requires the measurement date of plan assets and obligations to occur at the end of the employers' fiscal year.

SFAS 158 is effective for the Company at the end of fiscal 2007, except for the change in measurement date, which is effective for the Company in fiscal 2008. The effect on the Company's financial statements is dependent upon the discount rate at the Company's fiscal 2007 measurement date (September 30, 2007) and actual returns on the Company's pension plan assets during the year. The Company is currently evaluating the impact, if any, that SFAS 158 may have on the Company's financial conditions, results of operations or liquidity.

*Accounting for Uncertainty in Income Taxes*

In June 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109* (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS 109, *Accounting for Income Taxes*. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company is currently evaluating the impact, if any, that FIN 48 may have on the Company's financial condition results of operations or liquidity.

*Accounting Changes and Error Corrections*

In May 2005, the FASB issued SFAS No. 154, *Accounting Changes and Error Corrections* (SFAS 154) which supersedes APB Opinion No. 20, *Accounting Changes* and SFAS No. 3, *Reporting Accounting Changes in Interim Financial Statements*. SFAS 154 provides guidance on the accounting for and reporting of accounting changes and error corrections. It establishes, unless impracticable, retrospective application as the required method for reporting a change in accounting principle in the absence of explicit transition requirements specific to the newly adopted accounting principle. The correction of an error in previously issued financial statements is not an accounting change. However, the reporting of an error correction involves adjustments to previously issued financial statements similar to those generally applicable to reporting an accounting change retroactively. Therefore, the reporting of a correction of an error by restating previously issued financial statements is also addressed by this statement. SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The

adoption of SFAS 154 in fiscal 2006 did not have a material impact on the Company's financial condition, results of operations or liquidity.

*Asset Retirements*

In March 2005, the FASB issued FASB Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations* an interpretation of FASB Statement No. 143 (FIN 47). FIN 47 clarifies that the term conditional

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asset retirement obligation as used in SFAS 143, *Accounting for Asset Retirement Obligations*, refers to a legal obligation to perform an asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. The obligation to perform the asset retirement activity is unconditional even though uncertainty exists about the timing and (or) method of settlement. Uncertainty about the timing and (or) method of settlement of a conditional asset retirement obligation should be factored into the measurement of the liability when sufficient information exists. FIN 47 also clarifies when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. FIN 47 is effective no later than the end of fiscal years ending after December 15, 2005. The adoption of FIN 47 in the fourth quarter of fiscal 2006 did not impact the Company's financial condition, results of operations or liquidity.

*Inventory Costs*

In November 2004, the FASB issued SFAS No. 151, *Inventory Costs, an amendment of Accounting Research Bulletin (ARB) No. 43, Chapter 4* (SFAS 151). SFAS 151 amends the guidance in ARB No. 43, Chapter 4, *Inventory Pricing*, to clarify that abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage) should be recognized as current-period charges. In addition, SFAS 151 requires that allocation of fixed production overhead to the costs of conversion be based on the normal capacity of the production facilities. The provisions of SFAS 151 are effective for fiscal years beginning after June 15, 2005. The adoption of SFAS 151 in the first quarter of fiscal 2006 did not impact the Company's financial condition, results of operations or liquidity.

**3. Stock-Based Compensation and Shareholders' Equity**

On December 16, 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004), *Share-Based Payment* (SFAS 123R). SFAS 123R supersedes APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and amends SFAS No. 95, *Statement of Cash Flows*. Generally, the approach in SFAS 123R is similar to the approach described in SFAS 123 *Accounting for Stock-Based Compensation*. However, SFAS 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement over their vesting period based on their fair values at the date of grant. Pro forma disclosure is no longer an alternative.

On October 30, 2005 (the first day of its 2006 fiscal year), the Company adopted SFAS 123R using the modified prospective method as permitted under SFAS 123R. Under this transition method, compensation cost recognized in fiscal 2006 includes: (a) compensation cost for all share-based payments granted prior to but not yet vested as of October 29, 2005, based on the grant-date fair value estimated in accordance with the provisions of SFAS 123, and (b) compensation cost for all share-based payments granted subsequent to October 29, 2005, based on the grant-date fair value estimated in accordance with the provisions of SFAS 123R. In accordance with the modified prospective method of adoption, the Company's results of operations and financial position for prior periods have not been restated.

*Equity Compensation Plans*

The Company grants, or has granted, stock options and other stock and stock-based awards under the following equity compensation plans:

*2006 Stock Incentive Plan (2006 Plan)* The 2006 Plan was approved by the Company's Board of Directors on January 23, 2006 and was approved by shareholders on March 14, 2006 and subsequently amended in March 2006. The 2006 Plan provides for the grant of up to 15 million shares of the Company's common stock, plus such number of additional shares that were subject to outstanding options under the Company's 1998 Stock Option Plan and the 2001 Broad-Based Stock Option Plan as of January 23, 2006 that are not issued because the applicable option award subsequently terminates or expires without being exercised. The 2006 Plan provides for the grant of incentive stock options intended to qualify under Section 422 of the Internal Revenue Code of 1986, as amended, or non-statutory stock options, stock appreciation rights, restricted stock, restricted stock units and other stock-based

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**ANALOG DEVICES, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

awards. Employees, officers, directors, consultants and advisors of the Company and its subsidiaries are eligible to be granted awards under the 2006 Plan. No award may be made under the 2006 Plan after March 13, 2016, but awards previously granted may extend beyond that date. The Company will not grant further options under the 1998 Plan or the 2001 Plan.

*2001 Broad-Based Stock Option Plan (2001 Plan)* The 2001 Plan was adopted by the Company's Board of Directors in December 2001 and subsequently amended in December 2002. The 2001 Plan provides for the issuance of options to purchase up to 50 million shares of common stock to employees, consultants or advisors of the Company and its subsidiaries, other than executive officers and directors. As a result of the approval of the 2006 Plan, no further grants were made under the 2001 Plan.

*The 1998 Stock Option Plan (1998 Plan)* The 1998 Plan was approved by shareholders in fiscal 1998 and subsequently amended in December 2001 and December 2002. The 1998 Plan provides for the issuance of nonstatutory and incentive stock options to purchase up to 30 million shares of common stock. In March 2000, the Company's shareholders approved an amendment to the 1998 Plan to increase the shares reserved for issuance under the 1998 Plan by an additional 34 million shares. As a result of the approval of the 2006 Plan, no further grants were made under the 1998 Plan.

While the Company may grant to employees options that become exercisable at different times or within different periods, the Company has generally granted to employees options that vest over five years and become exercisable in annual installments of 33 1/3% on each of the third, fourth, and fifth anniversaries of the date of grant; in annual installments of 25% on each of the second, third, fourth and fifth anniversaries of the date of grant; or 20% on each of the first, second, third, fourth and fifth anniversaries of the date of grant. The maximum contractual term of all options is ten years.

*Employee Stock Purchase Plans* The Company also has employee stock purchase plans (ESPPs) that allow 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 may withdraw from an offering before the purchase date and obtain a refund of the amounts withheld through payroll deductions plus accrued interest. The latest offering period began June 1, 2005 and ended on June 1, 2006; therefore, June 1, 2005 is considered the grant date for the purposes of recognizing the stock-based compensation expense for that offering period. During fiscal 2006, the Company's Board of Directors decided that the latest offering period, which ended June 1, 2006, would be the last offering period under the ESPPs. Under APB Opinion No. 25, the Company was not required to recognize stock-based compensation expense for the cost of stock options or shares issued under the Company's ESPPs. Upon adoption of SFAS 123R, the Company began recording stock-based compensation expense related to the ESPPs.

**Table of Contents****ANALOG DEVICES, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Grant-Date Fair Value**

The Company uses the Black-Scholes option pricing model to calculate the grant-date fair value of an award. The fair values of options granted were calculated using the following estimated weighted-average assumptions:

| <b>Stock Options</b>                                     | <b>2006</b> | <b>2005</b> | <b>2004</b> |
|----------------------------------------------------------|-------------|-------------|-------------|
| Options granted (in thousands)                           | 8,752       | 12,904      | 12,888      |
| Restricted Awards granted (in thousands)                 | 55          |             |             |
| Weighted-average exercise prices stock options           | \$ 38.65    | \$ 37.60    | \$ 45.38    |
| Weighted-average grant date fair-value stock options     | \$ 11.60    | \$ 10.85    | \$ 27.99    |
| Weighted-average grant date fair-value non-vested shares | \$ 35.35    | NA          | NA          |
| Weighted-average grant date fair-value ESPP              | NA          | \$ 9.52     | \$ 12.60    |
| Assumptions:                                             |             |             |             |
| Weighted-average expected volatility                     | 28.7%       | 27.4%       | 69.2%       |
| Weighted-average expected term (in years)                | 5.0         | 5.0         | 5.8         |
| Risk-free interest rate                                  | 4.4%        | 3.6%        | 3.5%        |
| Expected dividend yield                                  | 1.3%        | 0.68%       | 0.36%       |

**Expected volatility** The Company is responsible for estimating volatility and has considered a number of factors, including third-party estimates, when estimating volatility. For options granted prior to fiscal 2005, the Company used historical volatility to estimate the grant-date fair value of stock options. The Company changed its method of estimating expected volatility for all stock options granted after fiscal 2004 from exclusively relying on historical volatility to exclusively relying on implied volatility. This change was the result of a thorough review the Company undertook, which included consultations with several third-party advisors. The Company currently believes that the exclusive use of implied volatility results in a more accurate estimate of the grant-date fair value of employee stock options because it more appropriately reflects the market's current expectations of future volatility. Historical volatility during the period commensurate with the expected term of the Company's stock options over the past several years included a period of time when the Company's stock price experienced unprecedented increases and subsequent declines. The Company believes that this past stock price volatility is unlikely to be indicative of future stock price behavior. Options in the Company's common stock are actively traded on several exchanges. Implied volatility is calculated for the period that is commensurate with the option's expected term assumption. Because this term often exceeds the period for which there are exchange-traded options in the Company's common stock, statistical techniques are used to derive the implied volatility for traded options with terms commensurate with the option's expected term of five years. This calculation of implied volatility is derived from the closing prices of both the Company's common stock and exchange traded options from the most recent five trading days prior to the grant date of the employee stock option.

**Expected term** The Company uses historical employee exercise and option expiration data to estimate the expected term assumption for the Black-Scholes grant-date valuation. The Company believes that this historical data is currently the best estimate of the expected term of a new option, and that generally its employees exhibit similar exercise behavior.

**Risk-free interest rate** The yield on zero-coupon U.S. Treasury securities for a period that is commensurate with the expected term assumption is used as the risk-free interest rate.

**Expected dividend yield** Expected dividend yield is calculated by annualizing the cash dividend declared by the Company's Board of Directors for the current quarter and dividing that result by the closing stock price on the date of grant. Until such time as the Company's Board of Directors declares a cash dividend for an amount that is different from the current quarter's cash dividend, the current dividend will be used in deriving this assumption. Cash dividends are not paid on options, restricted stock or restricted stock units.

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**ANALOG DEVICES, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Stock-based Compensation Expense**

The Company used the graded attribution method to recognize expense for all stock-based awards prior to the adoption of SFAS 123R. Upon adoption of SFAS 123R on October 30, 2005, the Company changed to the straight-line attribution method to recognize expense for stock-based awards granted after October 29, 2005. The change to the straight-line attribution method was made so that the expense associated with each stock-based award is recognized evenly over the vesting period. The expense associated with the unvested portion of the pre-adoption grants will continue to be expensed using the graded attribution method.

The amount of stock-based compensation recognized during a period is based on the value of the portion of the awards that are ultimately expected to vest. SFAS 123R requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. The term forfeitures is distinct from cancellations or expirations and represents only the unvested portion of the surrendered stock-based award. The Company currently expects, based on an analysis of its historical forfeitures, that approximately 84% of its stock-based awards will vest, and therefore has applied an annual forfeiture rate of 3.4% to all unvested stock-based awards as of October 28, 2006. The 3.4% represents the portion that is expected to be forfeited each year over the vesting period; therefore, the cumulative amount, on a compounded basis, that is expected to be forfeited is approximately 16% of the aggregate stock-based awards. This analysis will be re-evaluated quarterly and the forfeiture rate will be adjusted as necessary. Ultimately, the actual expense recognized over the vesting period will only be for those shares that vest.

The Company's stock option agreements historically provided for retirement-related continued vesting for a portion, or all, of certain stock options based on the optionee's age and years of service (the retirement provision) in that regardless of whether the employee continues to provide services, the optionee receives the benefit of the stock option. SFAS 123R clarifies the timing for recognizing stock-based compensation expense for awards subject to continued vesting upon meeting this retirement provision. This compensation expense must be recognized over the period from the date of grant to the date retirement eligibility is met if it is shorter than the required service period. Upon adoption of SFAS 123R in the first quarter of fiscal 2006, the Company changed its policy regarding the timing of option expense recognition for optionees meeting the criteria of the retirement provision to recognize compensation cost over the period through the date that the optionee is no longer required to provide service to earn the award. Prior to the adoption of SFAS 123R, the Company's policy was to recognize these compensation costs over the vesting term. Had the Company applied these non-substantive vesting provisions required by SFAS 123R to awards granted prior to the adoption of SFAS 123R, the impact on the pro forma net earnings presented below would have been immaterial. Effective during the third fiscal quarter of fiscal 2006, new grants will not include a provision that provides for retirement-related continued vesting.

The adoption of SFAS 123R on October 30, 2005 had the following impact on fiscal 2006 results: operating profit before tax was lower by \$73.9 million, net income was lower by \$52.6 million, cash flow from operations was lower by \$181.2 million, cash flow from financing activities was higher by \$181.2 million and basic and diluted EPS were lower by \$0.15 and \$0.14, respectively.

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The following table details the effect on net income and earnings per share had stock-based compensation expense been recorded for the fiscal years 2005 and 2004 based on the fair-value method under SFAS 123, *Accounting for Stock-Based Compensation*.

|                                                                                                                                        | <b>2005</b> | <b>2004</b> |
|----------------------------------------------------------------------------------------------------------------------------------------|-------------|-------------|
| Net income, as reported                                                                                                                | \$ 414,787  | \$ 570,738  |
| Add: Stock-based employee compensation expense included in reported net income, net of related tax effects                             | 3,796       | 5,653       |
| Deduct: Total stock-based compensation expense determined under the fair value based method for all awards, net of related tax Effects | (305,350)   | (213,266)   |
| Pro forma net income                                                                                                                   | \$ 113,233  | \$ 363,125  |
| Earnings per share:                                                                                                                    |             |             |
| Basic as reported                                                                                                                      | \$ 1.12     | \$ 1.52     |
| Basic pro forma                                                                                                                        | \$ 0.30     | \$ 0.97     |
| Diluted as reported                                                                                                                    | \$ 1.08     | \$ 1.45     |
| Diluted pro forma                                                                                                                      | \$ 0.29     | \$ 0.91     |

Prior to the adoption of SFAS 123R, on October 18, 2005, the Company accelerated the vesting of all unvested stock options awarded to employees after December 31, 2000 that had exercise prices of \$40.00 per share or greater. Options issued to its corporate officers and directors were not accelerated. Unvested options to purchase approximately 18 million shares became exercisable as a result of the vesting acceleration. Because the exercise price of all the modified options was greater than the market price of the Company's underlying common stock on the date of the modification, no stock-based compensation expense was recorded in the statement of income, in accordance with APB Opinion No. 25. The primary purpose for modifying the terms of these out-of-the-money stock options to accelerate their vesting was to eliminate the need to recognize the remaining unrecognized non-cash compensation expense in the statement of income associated with these options as measured under SFAS 123, because the approximately \$188 million (\$134 million net of tax) of future expense associated with these options would have been disproportionately high compared to the economic value of the options at the date of modification.

As disclosed in Note 13, on November 15, 2005, the Company announced that it reached a tentative settlement with the Securities and Exchange Commission, or SEC, of the SEC's previously announced investigation into certain option grants made by the Company. The Company has determined that no restatement of its historical financial results would be necessary due to the proposed settlement because the effects of using revised measurement dates for options granted in 1998, 1999 and 2001 are not material to any of the fiscal years 1998 through 2005, based on the materiality guidelines contained in Staff Accounting Bulletin 99, *Materiality* (SAB 99). Accordingly, the table presented above has not been restated to reflect the effects of using the revised measurement dates.



**Table of Contents****ANALOG DEVICES, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Stock-Based Compensation Activity**

A summary of the activity under the Company's stock option plans as of October 28, 2006 and changes during the fiscal year then ended is presented below:

|                                                                      | <b>Options<br/>Outstanding</b> | <b>Weighted-<br/>Average<br/>Exercise<br/>Price<br/>Per Share</b> | <b>Weighted-<br/>Average<br/>Remaining<br/>Contractual<br/>Term in<br/>Years</b> | <b>Aggregate<br/>Intrinsic<br/>Value</b> |
|----------------------------------------------------------------------|--------------------------------|-------------------------------------------------------------------|----------------------------------------------------------------------------------|------------------------------------------|
| <b>Options outstanding at October 29, 2005</b>                       | 85,489                         | \$ 32.75                                                          |                                                                                  |                                          |
| Options granted                                                      | 8,752                          | \$ 38.65                                                          |                                                                                  |                                          |
| Options exercised                                                    | (5,382)                        | \$ 15.32                                                          |                                                                                  |                                          |
| Options forfeited                                                    | (1,894)                        | \$ 34.15                                                          |                                                                                  |                                          |
| Options expired                                                      | (2,504)                        | \$ 44.48                                                          |                                                                                  |                                          |
| <b>Options outstanding at October 28, 2006</b>                       | 84,461                         | \$ 34.09                                                          | 5.6                                                                              | \$ 343,415                               |
| <b>Options exercisable at October 28, 2006</b>                       | 61,108                         | \$ 33.32                                                          | 4.6                                                                              | \$ 308,347                               |
| <b>Options vested or expected to vest at<br/>October 28, 2006(1)</b> | 82,521                         | \$ 34.01                                                          | 5.5                                                                              | \$ 342,158                               |

(1) In addition to the vested options, the Company expects a portion of the unvested options to vest at some point in the future. Options expected to vest is calculated by applying an estimated forfeiture rate to the unvested options.

The total intrinsic value of options exercised (i.e. the difference between the market price at exercise and the price paid by the employee to exercise the options) during fiscal 2006 was \$113.6 million and the total amount of cash received by the Company from exercise of these options was \$82.4 million. The total grant-date fair value of stock options that vested during fiscal 2006 was approximately \$145.5 million.

A summary of the Company's restricted stock award activity as of October 28, 2006 and changes during the year then ended is presented below:

| <b>Restricted<br/>Shares</b> | <b>Weighted-<br/>Average Grant<br/>Date Fair Value</b> |
|------------------------------|--------------------------------------------------------|
|------------------------------|--------------------------------------------------------|

|                                                          | Outstanding | Per Share |
|----------------------------------------------------------|-------------|-----------|
| <b>Non-Vested shares outstanding at October 29, 2005</b> |             |           |
| Awards granted                                           | 55          | \$ 35.35  |
| Restrictions lapsed                                      |             |           |
| Awards forfeited                                         |             |           |
| <b>Non-Vested shares outstanding at October 28, 2006</b> | 55          | \$ 35.35  |

As of October 28, 2006, there was \$156.6 million of total unrecognized compensation cost related to unvested share-based awards including stock options and restricted shares. That cost is expected to be recognized over a weighted-average period of 1.7 years.

Table of Contents**ANALOG DEVICES, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

| Stock Award Activity                               | Shares<br>Available<br>for Grant | Restricted Awards<br>Outstanding |                                           | Options Outstanding |                                           |
|----------------------------------------------------|----------------------------------|----------------------------------|-------------------------------------------|---------------------|-------------------------------------------|
|                                                    |                                  | Number                           | Weighted<br>Average<br>Price Per<br>Share | Number              | Weighted<br>Average<br>Price Per<br>Share |
| <b>Balance, November 1, 2003</b>                   | 44,592                           |                                  | \$                                        | 78,564              | \$ 26.66                                  |
| Options granted                                    | (12,888)                         |                                  |                                           | 12,888              | 45.38                                     |
| Options exercised                                  |                                  |                                  |                                           | (9,031)             | 12.44                                     |
| Options canceled                                   | 2,145                            |                                  |                                           | (2,145)             | 34.54                                     |
| <b>Balance, October 30, 2004</b>                   | 33,849                           |                                  |                                           | 80,276              | 31.00                                     |
| Options granted                                    | (12,904)                         |                                  |                                           | 12,904              | 37.60                                     |
| Options exercised                                  |                                  |                                  |                                           | (5,179)             | 14.88                                     |
| Options canceled                                   | 2,512                            |                                  |                                           | (2,512)             | 38.57                                     |
| <b>Balance, October 29, 2005</b>                   | 23,457                           |                                  |                                           | 85,489              | 32.75                                     |
| Shares authorized for 2006 Stock<br>Incentive Plan | 15,000                           |                                  |                                           |                     |                                           |
| Shares canceled upon termination of stock<br>plans | (15,968)                         |                                  |                                           |                     |                                           |
| Restricted awards granted(1)                       | (165)                            | 55                               | 35.35                                     |                     |                                           |
| Options granted                                    | (8,752)                          |                                  |                                           | 8,752               | 38.65                                     |
| Options exercised                                  |                                  |                                  |                                           | (5,382)             | 15.32                                     |
| Options canceled                                   | 4,398                            |                                  |                                           | (4,398)             | 40.04                                     |
| <b>Balance, October 28, 2006</b>                   | 17,970                           | 55                               | \$ 35.35                                  | 84,461              | \$ 34.09                                  |

- (1) The 2006 Plan provides that for purposes of determining the number of shares available for issuance under the 2006 Plan, any restricted stock award, restricted stock unit or other stock-based award with a per share or per unit price lower than the fair market value of our common stock on the date of grant (a Full-Value Award ) will be counted as three shares for each share subject to the Full-Value Award.

As of October 28, 2006, a total of 102,486,091 common shares were reserved for issuance under the Company's stock plans.

*Common Stock Repurchase*

In August 2004, the Company's Board of Directors approved the repurchase of up to \$500 million of the Company's common stock. On May 11, 2005, the Company's Board of Directors amended the stock repurchase program by increasing the total amount of the Company's common stock the Company is authorized to repurchase from \$500 million to \$1 billion of common stock. On March 14, 2006, the Board of Directors authorized the repurchase by the Company of an additional \$1 billion of the Company's common stock, increasing the total amount of the Company's common stock the Company can repurchase from \$1 billion to \$2 billion of the Company's common stock. Under the repurchase program, the Company may repurchase outstanding shares of its common stock from time to time in the open market and through privately negotiated transactions. Unless terminated earlier by resolution of the Company's Board of Directors, the repurchase program will expire when the Company has repurchased all shares authorized under the program. The Company repurchased a total of 30.7 million shares for approximately \$1,025 million during fiscal 2006. As of October 28, 2006, the Company had repurchased

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**ANALOG DEVICES, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

approximately 49 million shares of its common stock for approximately \$1,688 million under this program. The repurchased shares are held as authorized but unissued shares of common stock.

*Preferred Stock*

The Company has 471,934 authorized shares of \$1.00 par value preferred stock, none of which is issued or outstanding. The Board of Directors is authorized to fix designations, relative rights, preferences and limitations on the preferred stock at the time of issuance.

*Common Stock Purchase Rights*

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

On January 23, 2006, the Company, by vote of its Board of Directors, terminated its Stockholder Rights Plan. All rights outstanding under the Stockholder Rights Plan were redeemed at a redemption price of \$0.0005 per right (as adjusted to reflect the two-for-one split of the Company's common stock on March 15, 2000) (as adjusted, the

Redemption Price) and paid on March 15, 2006 to the holders of record of the Company's common stock on February 24, 2006. All rights to exercise rights issued under the Stockholder Rights Plan terminated on January 23, 2006 and the only right thereafter of the holders of rights issued under the Stockholder Rights Plan was to receive the Redemption Price.

**4. Industry and Geographic Segment Information**

The Company operates and tracks its results in one reportable segment. The Company designs, develops, manufactures and markets a broad range of integrated circuits. The Chief Executive Officer has been identified as the Chief Operating Decision Maker as defined by SFAS 131, *Disclosures about Segments of an Enterprise and Related Information*.

Table of Contents**ANALOG DEVICES, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)***Geographic Information*

The Company operates in the following major geographic areas. Trade sales data is based upon point of sale and property, plant and equipment data is based upon physical location. The predominant countries comprising European operations are Ireland, England, France and Germany. The predominant countries comprising Rest of Asia are Taiwan and Korea.

|                                      | <b>2006</b>  | <b>2005</b>  | <b>2004</b>  |
|--------------------------------------|--------------|--------------|--------------|
| <b>Sales</b>                         |              |              |              |
| United States                        | \$ 653,093   | \$ 598,518   | \$ 649,515   |
| Europe                               | 573,104      | 546,970      | 513,625      |
| Japan                                | 487,545      | 454,471      | 508,941      |
| China                                | 334,835      | 260,397      | 378,688      |
| Rest of Asia                         | 524,599      | 528,452      | 583,031      |
| Subtotal all foreign countries       | 1,920,083    | 1,790,290    | 1,984,285    |
| Total sales                          | \$ 2,573,176 | \$ 2,388,808 | \$ 2,633,800 |
| <b>Property, plant and equipment</b> |              |              |              |
| United States                        | \$ 234,489   | \$ 268,676   | \$ 302,873   |
| Ireland                              | 191,252      | 209,807      | 229,297      |
| All other European Countries         | 4,496        | 2,993        | 3,491        |
| Canada                               | 210          | 638          | 840          |
| Philippines                          | 123,786      | 112,245      | 125,570      |
| Japan                                | 707          | 771          | 737          |
| China and Rest of Asia               | 7,685        | 4,776        | 4,971        |
| Subtotal all foreign countries       | 328,136      | 331,230      | 364,906      |
| Total property, plant and equipment  | \$ 562,625   | \$ 599,906   | \$ 667,779   |

**5. Special Charges**

A summary of the Company's special charges is as follows:

**Reorganization of**

| <b>Income Statement</b>          | <b>Closure of Wafer<br/>Fabrication<br/>Facility</b> | <b>Product Development<br/>and<br/>Support Programs</b> | <b>Total<br/>Special<br/>Charges</b> |
|----------------------------------|------------------------------------------------------|---------------------------------------------------------|--------------------------------------|
| <b>Fiscal 2005 Charges:</b>      |                                                      |                                                         |                                      |
| Workforce reductions             | \$ 20,315                                            | \$ 11,165                                               | \$ 31,480                            |
| <b>Total Fiscal 2005 Charges</b> | \$ 20,315                                            | \$ 11,165                                               | \$ 31,480                            |
| <b>Fiscal 2006 Charges:</b>      |                                                      |                                                         |                                      |
| Facility closure costs           | \$                                                   | \$ 554                                                  | \$ 554                               |
| Abandonment of equipment         |                                                      | 459                                                     | 459                                  |
| Other items                      |                                                      | 462                                                     | 462                                  |
| Change in estimate               | (2,029)                                              |                                                         | (2,029)                              |
| Workforce reductions             |                                                      | 2,344                                                   | 2,344                                |
| <b>Total Fiscal 2006 Charges</b> | \$ (2,029)                                           | \$ 3,819                                                | \$ 1,790                             |

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## ANALOG DEVICES, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

|                                    | Closure of Wafer<br>Fabrication<br>Facility | Reorganization of<br>Product Development<br>and<br>Support Programs | Total<br>Special<br>Charges |
|------------------------------------|---------------------------------------------|---------------------------------------------------------------------|-----------------------------|
| <b>Accrued Restructuring</b>       |                                             |                                                                     |                             |
| <b>Balance at October 29, 2005</b> | \$ 20,315                                   | \$ 10,708                                                           | \$ 31,023                   |
| Fiscal 2006 special charges        | (2,029)                                     | 3,819                                                               | 1,790                       |
| Severance payments                 | (12,383)                                    | (8,175)                                                             | (20,558)                    |
| Non-cash impairment charge         |                                             | (459)                                                               | (459)                       |
| Facility closure costs             |                                             | (455)                                                               | (455)                       |
| Other items                        |                                             | (462)                                                               | (462)                       |
| <b>Balance at October 28, 2006</b> | \$ 5,903                                    | \$ 4,976                                                            | \$ 10,879                   |

*Closure of Wafer Fabrication Facility*

During the fourth quarter of fiscal 2005, the Company recorded a special charge of \$20.3 million as a result of a decision to close its California wafer fabrication operations and transfer virtually all of the production of products manufactured there to the Company's facility located in Wilmington, Massachusetts. The charge was for severance and fringe benefit costs that were recorded pursuant to SFAS 88, *Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits*, under the Company's ongoing benefit plan for 339 manufacturing employees and 28 general and administrative employees at that site. The severance benefit is calculated based on length of past service, and employees must continue to be employed until they are involuntarily terminated in order to receive the severance benefit. As of October 28, 2006, 72 of these employees remained employed at the Company. The employment of 42 of these employees was terminated on November 9, 2006. The remaining 30 employees will continue working over the next three months on the cleanup and closure of the wafer fabrication facility.

In addition to the charge recorded in the fourth quarter of fiscal 2005, the Company recorded additional expense during fiscal 2006, which consisted of \$18.3 million of non-cash cost of sales expenses for additional depreciation due to shortened useful lives of certain manufacturing equipment and \$2.0 million for stay-on bonuses. The Company reversed approximately \$2.0 million of its severance accrual during fiscal 2006. The accrual reversal was required because some employees voluntarily left the Company, other employees found alternative employment within the Company, and there was an over accrual related to fringe benefits because severance payments, normally paid as income continuance, were paid as lump sum payments which reduced the benefit costs associated with these terminated employees.

The Company completed production at the wafer fabrication facility on November 9, 2006. The Company expects to incur additional expense related to this action in the first half of fiscal 2007 of approximately \$11 million for lease termination, cleanup and closure costs. In accordance with SFAS 146, *Accounting for Costs Associated with Exit or Disposal Activities*, the lease charge will be taken when the Company ceases using the building and the cleanup and closure costs will be expensed as incurred.

*Reorganization of Product Development and Support Programs*

During the fourth quarter of fiscal 2005, the Company recorded a special charge of \$11.2 million as a result of its decision to reorganize its product development and support programs with the goal of providing greater focus on its analog and DSP product programs. The charge was for severance and fringe benefit costs that were recorded pursuant to SFAS 88, *Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits*, under the Company's ongoing benefit plan or statutory requirements at foreign locations for 60 manufacturing employees and 154 engineering and selling, marketing, general and administrative employees. These employees must continue to be employed until they are involuntarily terminated in order to receive the severance benefit. As of October 28, 2006, 23 of these employees were still employed by the Company.

**Table of Contents****ANALOG DEVICES, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

During fiscal 2006, the Company recorded an additional special charge of \$3.8 million related to this reorganization action. Approximately \$1.5 million of this charge was for lease obligation costs for a facility the Company ceased using during the first quarter of fiscal 2006 and the write-off of property, plant and equipment and other items at this subsidiary. The remaining \$2.3 million relates to the severance and fringe benefit costs that were recorded in the fourth quarter pursuant to SFAS 88, *Employers Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits*, under the Company's ongoing benefit plan or statutory requirements at foreign locations for 46 engineering and selling, marketing, general and administrative employees. These employees must continue to be employed until they are involuntarily terminated in order to receive the severance benefit. As of October 28, 2006, 35 of these employees were still employed by the Company.

**6. Acquisitions**

In the third quarter of fiscal 2006, the Company completed a transaction with TTPCom Limited (TTPCom), whereby TTPCom transferred to the Company intellectual property, engineering resources, and related assets associated with the support and customization of TTPCom's GSM/GPRS/EDGE modem software for use on the Company's existing and future generations of SoftFone® baseband processors. The Company also acquired development rights for AJAR, TTPCom's advanced applications platform. As a result of this transaction, the Company is the single point of contact for both hardware and software support for its new and existing wireless handset customers, thus improving the Company's abilities to service the needs of individual customers. The Company paid \$11.9 million in initial cash payments and may become obligated to make additional cash payments of up to an aggregate of \$12 million based on the achievement of technological milestones during the period from May 2006 through November 2006. The purchase price was allocated to the tangible and intangible assets acquired based on their estimated fair values at the date of acquisition. The estimated fair values of the assets exceeded the initial payments by \$7.8 million, resulting in negative goodwill. Pursuant to Statement of Financial Accounting Standards (SFAS) No. 141, *Business Combinations*, the Company recorded a liability for the contingent consideration that will be accounted for as additional purchase price, up to the amount of the negative goodwill. As contingent payments become due, the payments will be applied against the contingent liability. Contingent payments in excess of \$7.8 million, if any, will be recorded as additional purchase price. As of October 28, 2006, the Company had paid \$6 million of contingent payments, and the remaining contingent liability was \$1.8 million. The purchase price included \$5.5 million of in-process technology that had not yet reached technological feasibility, had no alternative future use and was charged to operations during the third quarter of fiscal 2006. The in-process technology related to software code developed for use in the Company's semiconductor chipsets manufactured for devices that use both the 2G and 2.5G cellular wireless technology standards. The fair value of the in-process technology was determined by a third party using the income forecast method, which is a discounted net cash flow approach. At the time of the acquisition, the in-process technology was approximately 56% complete. As of October 28, 2006, the in-process research and development projects are on schedule. The Company expects to complete these projects in the first quarter of fiscal 2007 and incur an additional \$1.3 million of expense related to these projects. The acquisition also included \$13.2 million of intangible assets (see Note 2f) that will be amortized over their estimated useful lives of five years using an accelerated amortization method that reflects the estimated pattern of economic use.

In the fourth quarter of fiscal 2006, the Company acquired substantially all the outstanding stock of privately-held Integrant Technologies, Inc. (Integrant) of Seoul, Korea. The acquisition enabled the Company to enter the mobile TV market as well as strengthened its presence in the Asian region. The Company paid \$127.2 million in initial cash payments at closing and may be obligated to make additional cash payments of up to an aggregate of \$33 million upon

the satisfaction of certain conditions. The initial cash payments include \$4.2 million held in escrow for the purchase of the remaining non-founder outstanding shares. The preliminary purchase price was allocated to the tangible and intangible assets acquired based on their estimated fair values at the date of acquisition. The Company expects to complete the purchase accounting in the first quarter of fiscal 2007 upon obtaining certain additional information. The \$33 million of potential cash payments is comprised of \$25 million for the achievement

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**ANALOG DEVICES, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

of revenue-based milestones that may be payable during the period from July 2006 through December 2007 and \$8 million related to the purchase of shares from the founder of Integrant during the period from July 2007 through July 2009. The additional cash payments, if any, will be recorded as additional purchase price. The purchase price included \$11.1 million of in-process technology that had not yet reached technological feasibility, had no alternative future use and was charged to operations during the fourth quarter of fiscal 2006. The in-process technology related to technologies currently in development for Dual DAB, T-DMB, DVB-H, RFID and WiBro applications. The fair value of the in-process technology was determined by a third party using the income forecast method, which is a discounted net cash flow approach. At the time of the acquisition, the in-process technology was approximately 74% complete. As of October 28, 2006, the in-process research and development projects are on schedule. The Company expects to complete these projects in the first quarter of fiscal 2007 and incur an additional \$3.3 million of expense related to these projects. The acquisition also included \$21.6 million of intangible assets (see Note 2f) that will be amortized over their estimated useful lives of two to five years using an accelerated amortization method that reflects the estimated pattern of economic use.

In the fourth quarter of fiscal 2006, the Company acquired all the outstanding stock of privately-held AudioAsics A/S (AudioAsics) of Roskilde, Denmark. The acquisition of AudioAsics allows the Company to continue developing low-power audio solutions, while expanding its presence in the Nordic and Eastern European regions. The Company paid \$19.3 million in initial cash payments at closing and may be obligated to make additional cash payments of up to an aggregate of \$8 million upon the satisfaction of certain conditions. The purchase price was allocated to the tangible and intangible assets acquired based on their estimated fair values at the date of acquisition. The \$8 million of potential cash payments is comprised \$4.8 million for the achievement of revenue-based milestones that may be payable during the period from October 2006 through January 2009 and \$3.2 million based on the achievement of certain technological milestones during the period from October 2006 through January 2009. In order to be entitled to receive \$2.4 million of the revenue-based contingent consideration, certain key employees must continue to be employed by the Company. As such, that portion of the revenue-based contingent consideration will be recorded as compensation expense when, and if, it is earned. The technological milestones require post-acquisition services to be rendered in order to be achieved and, as such, will be recorded as compensation expense when earned. The purchase price included \$5.1 million of in-process technology that had not yet reached technological feasibility, had no alternative future use and was charged to operations during the fourth quarter of fiscal 2006. The in-process technology related to technologies currently in development for analog and digital microphone pre-amplifiers. The fair value of the in-process technology was determined by a third party using the income forecast method, which is a discounted net cash flow approach. At the time of the acquisition, the in-process technology was approximately 69% complete. As of October 28, 2006, the in-process research and development projects are on schedule. The Company expects to complete these projects by April 2007 and incur an additional \$1.0 million of expense related to these projects. The acquisition also included \$8.3 million of intangible assets (see Note 2f) that will be amortized over their estimated useful lives of five years using an accelerated amortization method that reflects the estimated pattern of economic use.

Pro forma results of operations for TTPCom, Integrant and AudioAsics 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 such acquisition.

**Table of Contents****ANALOG DEVICES, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****7. Deferred Compensation Plan Investments**

Deferred compensation plan investments are classified as trading and the components of the investments as of October 28, 2006 and October 29, 2005 were as follows:

|                                                                  | <b>2006</b> | <b>2005</b> |
|------------------------------------------------------------------|-------------|-------------|
| Corporate obligations                                            | \$ 18,883   | \$ 249,329  |
| Money market funds                                               | 3,039       | 14,250      |
| Mutual funds                                                     | 9,766       | 13,738      |
| Total deferred compensation plan investments short and long term | \$ 31,688   | \$ 277,317  |

The fair values of these investments are based on published market quotes on October 28, 2006 and October 29, 2005, respectively. Adjustments to fair value of, and income pertaining to, deferred compensation plan investments are recorded in operating expenses. Gross realized and unrealized gains and losses from trading securities were not material in fiscal 2006, 2005 or 2004.

Investments are offset by a corresponding liability to the plan participants (see Note 11). These investments are specifically designated as available to the Company solely for the purpose of paying benefits under the Company's deferred compensation plan. However, in the event the Company became insolvent, the investments would be available to all unsecured general creditors.

During fiscal 2006, the Company distributed \$254.1 million from its amended and restated deferred compensation plan, or the Deferred Compensation Plan, as a result of participant terminations or at the direction of the participants. This amount represented compensation and/or stock option gains previously deferred by those participants pursuant to the terms of the Deferred Compensation Plan and earnings on those deferred amounts. As a result of certain provisions of the American Jobs Creation Act, participants had the opportunity until December 31, 2005 to elect to withdraw amounts previously deferred.

**8. Other Investments**

Other investments consist of equity securities and other long-term investments. 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 accumulated other comprehensive income (loss), unless the adjustment is considered an other-than-temporary impairment, in which case the adjustment is recorded as a charge in the statement of income.

There were no realized gains or losses recorded in fiscal 2006 or 2005. Realized losses of \$1.7 million were recorded in fiscal 2004.

Unrealized losses of \$0.7 million (\$0.4 million net of tax) were recorded in fiscal 2006, unrealized losses of \$1.4 million (\$0.9 million net of tax) were recorded in fiscal 2005 and unrealized gains of \$1.8 million (\$1.2 million net of tax) were recorded in fiscal 2004.

Long-term investments classified as available-for-sale were approximately \$0.9 million and \$2.4 million at October 28, 2006 and October 29, 2005, respectively.

**Table of Contents****ANALOG DEVICES, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****9. Accrued Liabilities**

Accrued liabilities at October 28, 2006 and October 29, 2005 consisted of the following:

|                                   | <b>2006</b> | <b>2005</b> |
|-----------------------------------|-------------|-------------|
| Accrued compensation and benefits | \$ 84,792   | \$ 70,668   |
| Special charges                   | 10,879      | 31,023      |
| Other                             | 59,098      | 60,460      |
| Total accrued liabilities         | \$ 154,769  | \$ 162,151  |

**10. Debt and Credit Facilities**

The Company had no debt or short-term borrowings outstanding at October 28, 2006 and October 29, 2005.

**11. Deferred Compensation Plan Liability and Other Noncurrent Liabilities**

The deferred compensation plan liability relates to obligations due under the Analog Devices, Inc. Deferred Compensation Plan (the "Deferred Compensation Plan"). The Deferred Compensation Plan allows certain members of management and other highly-compensated employees and non-employee directors to defer receipt of all or any portion of their compensation. Prior to January 1, 2005, participants could also defer gains on stock options and restricted stock granted before July 23, 1997. The balance represents Deferred Compensation Plan participant accumulated deferrals, and earnings thereon, since the inception of the Deferred Compensation Plan, net of withdrawals. The total expense to the Company of the Deferred Compensation Plan was \$1.0 million in fiscal 2006, \$9.9 million in fiscal 2005 and \$15.9 million in fiscal 2004. The Company's liability under the Deferred Compensation Plan is an unsecured general obligation of the Company. Other noncurrent liabilities primarily relate to pension liabilities.

During fiscal 2006, the Company distributed \$254.1 million from our amended and restated deferred compensation plan, or the Deferred Compensation Plan, as a result of participant terminations or at the direction of the participants. This amount represented compensation and/or stock option gains previously deferred by those participants pursuant to the terms of the Deferred Compensation Plan and earnings on those deferred amounts. As a result of certain provisions of the American Jobs Creation Act, participants had the opportunity until December 31, 2005 to elect to withdraw amounts previously deferred.

**12. Lease Commitments**

The Company leases certain of its facilities, equipment and software under various operating leases that expire at various dates through 2020. The lease agreements frequently include renewal and escalation clauses and require the Company to pay taxes, insurance and maintenance costs. Total rental expense under operating leases was approximately \$46 million in fiscal 2006, \$45 million in fiscal 2005 and \$43 million in fiscal 2004.



Table of Contents**ANALOG DEVICES, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following is a schedule of future minimum rental payments required under long-term operating leases at October 28, 2006:

| <b>Fiscal Years</b> | <b>Operating<br/>Leases</b> |
|---------------------|-----------------------------|
| 2007                | \$ 30,311                   |
| 2008                | 20,891                      |
| 2009                | 18,886                      |
| 2010                | 7,131                       |
| 2011                | 1,439                       |
| Later Years         | 4,976                       |
| Total               | \$ 83,634                   |

**13. Commitments and Contingencies***Tentative Settlement of the SEC's Previously Announced Stock Option Investigation*

In the Company's Form 10-K filing dated November 30, 2004, the Company disclosed that the Securities and Exchange Commission (SEC) had initiated an inquiry into its stock option granting practices, focusing on options that were granted shortly before the issuance of favorable financial results. On November 15, 2005, the Company announced that it had reached a tentative settlement with the SEC.

Since receiving notice of this inquiry, the Company has cooperated with the SEC. The Company and its President and CEO, Mr. Jerald G. Fishman, have made an offer of settlement to the Staff of the SEC, which is subject to agreement regarding the specific language of the SEC's administrative order and other settlement documents. The SEC Staff has decided to recommend the offer of settlement to the Commission. A final settlement is subject to review and approval by the Commission.

The contemplated settlement addresses two separate issues. The first issue concerns the Company's disclosure regarding grants of options to employees and directors prior to the release of favorable financial results. Specifically, the issue relates to options granted to employees (including officers) of the Company on November 30, 1999 and to employees (including officers) and directors of the Company on November 10, 2000. The SEC settlement would conclude that the Company should have made disclosures in its proxy filings to the effect that the Company priced these stock options prior to releasing favorable financial results.

The second issue addressed by the tentative settlement concerns the grant dates for options granted to employees (including officers) in 1998 and 1999, and the grant date for options granted to employees (including officers) and directors in 2001. Specifically, the settlement would conclude that the appropriate grant date for the September 4, 1998 options should have been September 8th (which is one trading day later than the date that was used to price the options); the appropriate grant date for the November 30, 1999 options should have been November 29th (which is

one trading day earlier than the date that was used); and the appropriate grant date for the July 18, 2001 options should have been July 26th (which is five trading days after the original date).

In connection with the contemplated settlement, the Company would consent to a cease-and-desist order under Section 10(b) of the Securities Exchange Act and Rule 10b-5 thereunder, would pay a civil money penalty of \$3 million, and would reprice options granted to Mr. Fishman and other directors in certain years. Options granted to all other employees would be excluded from the repricing. Mr. Fishman would consent to a cease-and-desist order under Sections 17(a)(2) and (3) of the Securities Act, would pay a civil money penalty of \$1 million, and would make a disgorgement payment with respect to options granted in certain years. With the exception of options granted in 1998, Mr. Fishman has not exercised or sold any of the options identified in this matter. The Company and Mr. Fishman would settle this matter without admitting or denying the Commission's findings.

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**ANALOG DEVICES, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The Company has determined that no restatement of its historical financial results would be necessary due to the proposed settlement, because the effects of using revised measurement dates for options granted in 1998, 1999 and 2001 are not material to any of the fiscal years 1998 through 2005, based on the materiality guidelines contained in SAB 99. If a stock-based compensation charge had been taken as a result of the revised measurement dates for these option grants to all employees (including officers) and directors, the net income of the Company for fiscal years 1998 through 2005 would have been reduced by \$21.8 million in total. During this period, the Company earned cumulative net income of over \$2.5 billion. There would be no impact on revenue, cash flow from operations, or shareholders equity as a result of using the revised measurement dates. The impact on net income in individual fiscal years would have been as follows: fiscal 1998 (\$0.2 million), fiscal 1999 (\$1.4 million), fiscal 2000 (\$1.8 million), fiscal 2001 (\$3.7 million), fiscal 2002 (\$8.1 million), fiscal 2003 (\$6.1 million), fiscal 2004 (\$0.5 million).

*Other Legal Proceedings*

On November 6, 2003, Enron Corporation commenced a proceeding in the United States Bankruptcy Court for the Southern District of New York. On December 1, 2003, Enron filed an amended complaint to add the Company as a defendant in such proceeding. The amended complaint alleged that transfers made by Enron in satisfaction of obligations it had under commercial paper were recoverable as preferential transfers and fraudulent transfers and subject to avoidance under the United States Bankruptcy Code. It was alleged that payments made in premature satisfaction of obligations under commercial paper totaling approximately \$20 million were recoverable from J.P. Morgan Securities, Inc., Fleet Capital Markets, Fleet National Bank and/or the Company. The Company sold \$20 million of Enron commercial paper to Fleet and did not enter into any direct transactions with Enron. The Company has reached a settlement with Enron, pursuant to which the Company contributed \$2.3 million towards a settlement of claims brought by Enron against both the Company and Bank of America (as successor to Fleet Capital Markets and Fleet National Bank). The settlement was submitted to and approved by the Bankruptcy Court. In accordance with the terms of the settlement, a stipulation of dismissal of all claims against the Company with prejudice has been executed by Enron, Bank of America and the Company and was filed with the Bankruptcy Court on November 9, 2006. The Bankruptcy Court entered the stipulation of dismissal on November 13, 2006.

On June 14, 2005, Biax Corporation filed its first amended complaint for patent infringement in the United States District Court for the Eastern District of Texas against the Company and Intel Corporation, alleging that the Company infringed three patents owned by Biax relating to parallel processors. Prior to the filing of the first amended complaint, the Company was unaware of Biax or this action. The first amended complaint seeks injunctive relief, unspecified damages with interest, as well as Biax's costs, expenses and fees. On August 3, 2005, the Company filed an answer and counterclaimed against Biax. In the counterclaim, the Company seeks rulings that the patents are not infringed, the patents are invalid and the patents are unenforceable. On November 7, 2005, Biax filed a second amended complaint alleging that the Company infringed two additional patents. The case is currently in the discovery phase. The Company intends to vigorously defend against these allegations. The Company is unable at this time to predict the outcome of this litigation; however, the Company believes that the final disposition of this matter will not have a material adverse effect on the Company or its financial position.

On or about May 5, 2006, Mr. Gregory Bender filed a complaint for patent infringement in the U.S. District Court for the Eastern District of Texas against the Company. Prior to the filing of the complaint, the Company was unaware of Mr. Bender or this action. In his complaint, Mr. Bender alleges that certain of the Company's amplifier products infringe a patent Mr. Bender owns. He seeks unspecified damages as well as a permanent injunction enjoining the Company from infringing his patent. Mr. Bender has served his complaint on the Company and the Company has filed

an answer. The Company intends to vigorously defend against these allegations. The Company cannot predict the outcome of this matter, but believes that the disposition of the matter will not have a material adverse effect on the Company or its financial position.

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**ANALOG DEVICES, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

In May 2006, the Company received a demand from a purported shareholder with respect to certain grants of options made to directors and officers of the Company during the years 1998, 1999 and 2001. That demand seeks, among other things, the commencement of an action by the directors of the Company on behalf of the Company against those directors and officers for breach of fiduciary duties arising from the granting of the options. A special committee of the Board of Directors of the Company was formed to review the allegations contained in the demand and to respond appropriately. After reviewing the facts underlying the allegations, the special committee decided to reject the purported shareholder's demand. The Company does not know whether the purported shareholder will take further action.

In May 2006, the Company received a document subpoena from the U.S. Attorney for the Southern District of New York requesting records from 2000 to the present relating to the Company's granting of stock options. The Company believes that the options at issue in this matter are the same option grants which have been the subject of investigation by the SEC. The Company is cooperating with the office of the U.S. Attorney in connection with this subpoena. The Company cannot predict the outcome of this matter, but believes the disposition of the matter will not have a material adverse effect on the Company or its financial position.

On June 12, 2006, a purported derivative complaint was filed in the United States District Court for the District of Massachusetts naming the Company as nominal defendant and also naming as defendants certain officers and directors of the Company. The complaint alleged purported violations of state and federal law in connection with the Company's option granting practices during the years 1998, 1999 and 2001, including violation of Section 14(a) of the Securities Exchange Act of 1934, breaches of fiduciary duties of care, loyalty and good faith, gross mismanagement, waste of corporate assets, and unjust enrichment. The complaint sought monetary damages in unspecified amounts, as well as equitable and injunctive relief. On October 12, 2006, the United States District Court for the District of Massachusetts dismissed the plaintiff's complaint with prejudice and without leave to amend. The Company does not know whether the plaintiff will appeal the court's decision or otherwise pursue the action further.

In August 2006, the Company received a demand from a purported shareholder to inspect the Company's books and records relating to certain grants of options made to directors and officers of the Company at diverse times. On September 8, 2006, the Company responded to the letter and indicated that the purported shareholder was not entitled to the documents sought in the demand. The Company does not know whether the purported shareholder will take further action.

On October 13, 2006, a purported class action complaint was filed in the United States District Court for the District of Massachusetts on behalf of participants in the Company's Investment Partnership Plan from October 5, 2000 to the present. The complaint named as defendants the Company, certain officers and directors, and the Company's Investment Partnership Plan Administration Committee. The complaint alleges purported violations of federal law in connection with the Company's option granting practices during the years 1998, 1999, 2000, and 2001, including breaches of fiduciary duties owed to participants and beneficiaries of the Company's Investment Partnership Plan under the Employee Retirement Income Security Act. The complaint seeks unspecified monetary damages, as well as equitable and injunctive relief. The Company intends to vigorously defend against these allegations. Although the Company believes it has meritorious defenses to the asserted claims, it is unable at this time to predict the outcome of this proceeding.

From time to time as a normal incidence of the nature of the Company's business, various claims, charges and litigation are asserted or commenced against the Company arising from, or related to, contractual matters, patents,

trademarks, personal injury, environmental matters, product liability, insurance coverage and personnel and employment disputes. As to such claims and litigation the Company can give no assurance that it will prevail.

While the Company does not believe that any of the matters described above will have a material adverse effect on the Company's financial position, an adverse outcome of any of these matters is possible and could have a material adverse effect on the Company's consolidated results of operations or cash flows in the quarter or annual period in which one or more of these matters are resolved.

Table of Contents**ANALOG DEVICES, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****14. 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 pre-tax contribution, if any, up to a maximum of 3% of each participant's total eligible compensation. The total expense related to the defined contribution plan for U.S. employees was \$23.3 million in fiscal 2006, \$22.8 million in fiscal 2005 and \$22.1 million in fiscal 2004. The Company also has various defined benefit pension and other retirement plans for certain non-U.S. employees that are consistent with local statutory requirements and practices. The total expense related to the various defined benefit pension and other retirement plans for certain non-U.S. employees was \$16.6 million in fiscal 2006, \$12.8 million in fiscal 2005 and \$10.2 million in fiscal 2004.

*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 non-U.S. equity securities, bonds, property and cash. The benefit obligations and related assets under these plans have been measured at September 30, 2006 and September 30, 2005.

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

|                                    | <b>2006</b> | <b>2005</b> | <b>2004</b> |
|------------------------------------|-------------|-------------|-------------|
| Service cost                       | \$ 10,572   | \$ 8,231    | \$ 7,108    |
| Interest cost                      | 7,214       | 6,521       | 5,690       |
| Expected return on plan assets     | (7,097)     | (7,307)     | (6,518)     |
| Amortization of prior service cost | 116         | 185         | 178         |
| Amortization of transitional asset | (27)        | 69          | (37)        |
| Recognized actuarial loss          | 1,548       | 648         | 350         |
| Net periodic pension cost          | \$ 12,326   | \$ 8,347    | \$ 6,771    |
| Curtailment impact                 | \$ 81       | \$          | \$          |
| Settlement impact                  | \$          | \$          | \$ 194      |
| Special termination benefits       | \$ 1,394    | \$          | \$ 633      |

The special termination presented relate to certain early retirement benefits provided in certain jurisdictions.

Table of Contents**ANALOG DEVICES, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Obligation and asset data of the Company's non-U.S. plans at each fiscal year end is presented in the following table:

|                                                           | <b>2006</b> | <b>2005</b> |
|-----------------------------------------------------------|-------------|-------------|
| <b>Change in Benefit Obligation</b>                       |             |             |
| Benefit obligation at beginning of year                   | \$ 163,230  | \$ 132,092  |
| Service cost                                              | 10,572      | 8,231       |
| Interest cost                                             | 7,214       | 6,521       |
| Special termination benefits                              | 1,394       |             |
| Participant contributions                                 | 2,310       | 2,299       |
| Premiums Paid                                             | (188)       | (238)       |
| Actuarial loss                                            | (10,807)    | 25,231      |
| Benefits paid                                             | (3,370)     | (3,460)     |
| Exchange rate adjustment                                  | 7,620       | (7,446)     |
| Benefit obligation at end of year                         | \$ 177,975  | \$ 163,230  |
| <b>Change in Plan Assets</b>                              |             |             |
| Fair value of plan assets at beginning of year            | \$ 108,091  | \$ 89,277   |
| Actual return on plan assets                              | 12,100      | 18,268      |
| Employer contributions                                    | 11,228      | 6,723       |
| Participant contributions                                 | 2,310       | 2,299       |
| Premiums Paid                                             | (188)       | (238)       |
| Benefits paid                                             | (3,370)     | (3,460)     |
| Exchange rate adjustment                                  | 5,773       | (4,778)     |
| Fair value of plan assets at end of year                  | \$ 135,944  | \$ 108,091  |
| <b>Reconciliation of Funded Status</b>                    |             |             |
| Unfunded status                                           | \$ (42,031) | \$ (55,139) |
| Contribution between September 30 and fiscal year end     | 2,404       | 726         |
| Unrecognized transition obligation                        | (19)        | 26          |
| Unrecognized actuarial loss                               | 25,131      | 41,153      |
| Unrecognized prior service cost                           | 25          | 137         |
| Net amount recognized                                     | \$ (14,490) | \$ (13,097) |
| <b>Amounts Recognized in the Balance Sheet Consist of</b> |             |             |
| Accrued benefit liability                                 | \$ (21,698) | \$ (22,580) |
| Intangible asset                                          | 25          | 149         |
| Accumulated other comprehensive income                    | 7,183       | 9,334       |
| Net amount recognized                                     | \$ (14,490) | \$ (13,097) |

|                                                                                               |            |          |
|-----------------------------------------------------------------------------------------------|------------|----------|
| Other comprehensive income attributable to change in additional minimum liability recognition | \$ (2,151) | \$ 3,785 |
|-----------------------------------------------------------------------------------------------|------------|----------|

The projected benefit obligation, accumulated benefit obligation, and fair value of plan assets for non-U.S. pension plans with accumulated benefit obligation in excess of plan assets were \$49.6 million, \$41.9 million, and

**Table of Contents****ANALOG DEVICES, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

\$24.2 million respectively, at September 30, 2006 and \$45.7 million, \$38.4 million, and \$16.6 million respectively, at September 30, 2005.

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 weighted average assumptions:

|                                          | <b>2006</b> | <b>2005</b> |
|------------------------------------------|-------------|-------------|
| Discount rate                            | 4.79%       | 4.36%       |
| Rate of increase in compensation levels  | 3.70%       | 3.61%       |
| Expected long-term return on plan assets | 6.71%       | 6.32%       |

The expected long-term rate of return on assets is a weighted average of the long-term rates of return selected for the various countries where the Company has funded pension plans. The expected long-term rate of return on assets assumption is selected based on the facts and circumstances that exist as of the measurement date, and the specific portfolio mix of plan assets. Management, in conjunction with its actuaries, reviewed anticipated future long-term performance of individual asset categories and considered the asset allocation strategy adopted by the Company and or the trustees of the plans. While the review considered recent fund performance and historical returns, the assumption is primarily a long-term, prospective rate.

Expected fiscal 2007 Company contributions and estimated future benefit payments are as follows:

**Expected Company Contributions**

|      |          |
|------|----------|
| 2007 | \$ 7,497 |
|------|----------|

**Expected Benefit Payments**

|           |           |
|-----------|-----------|
| 2008      | \$ 2,598  |
| 2009      | \$ 2,544  |
| 2010      | \$ 2,612  |
| 2011      | \$ 2,003  |
| 2012      | \$ 4,500  |
| 2013-2015 | \$ 25,988 |

The Company's year-end pension plan weighted average asset allocations by category were:

|          | <b>2006</b> | <b>Strategic Target</b> |
|----------|-------------|-------------------------|
| Equities | 66.39%      | 67.20%                  |
| Bonds    | 28.16%      | 28.29%                  |
| Cash     | 0.57%       | 0.09%                   |

|          |         |         |
|----------|---------|---------|
| Property | 4.66%   | 4.21%   |
| Other    | 0.22%   | 0.21%   |
| Total    | 100.00% | 100.00% |

The fundamental goal underlying the pension plans' investment policy is to achieve a total rate of return that exceeds inflation over the long-term by using a certain mix of assets depending on the profile of the specific plan. Investment practices must comply with applicable laws and regulations.

The Company's investment strategy is based on an expectation that equity securities will outperform debt securities over the long term. Accordingly, in order to maximize the return on assets, a majority of assets are invested in equities. Investments within each asset class are diversified to reduce the impact of losses in single investments. The use of derivative instruments is permitted where appropriate and necessary to achieve overall investment policy objectives and asset class targets.

Table of Contents**ANALOG DEVICES, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The Company establishes strategic asset allocation percentage targets and appropriate benchmarks for each significant asset class to obtain a prudent balance between return and risk. The interaction between plan assets and benefit obligations is periodically studied by the Company and its actuaries to assist in the establishment of strategic asset allocation targets.

**15. Income Taxes**

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

|                                                                                                | <b>2006</b>       | <b>2005</b>       | <b>2004</b>       |
|------------------------------------------------------------------------------------------------|-------------------|-------------------|-------------------|
| U.S. federal statutory tax rate                                                                | 35.0%             | 35.0%             | 35.0%             |
| <b>Income tax provision reconciliation:</b>                                                    |                   |                   |                   |
| Tax at statutory rate                                                                          | \$ 231,838        | \$ 205,692        | \$ 256,458        |
| Irish income subject to lower tax rate                                                         | (83,987)          | (79,131)          | (88,733)          |
| Repatriation of foreign earnings                                                               |                   | 48,688            |                   |
| Domestic and international tax examination benefits and the reversal of accruals for penalties | (35,158)          |                   |                   |
| Deferred compensation plan                                                                     |                   | 7,150             |                   |
| State income taxes, net of federal benefit                                                     | 937               | 437               | 1,424             |
| Research and development tax credits                                                           | (1,513)           | (10,982)          | (8,600)           |
| Amortization of goodwill/intangibles                                                           | 207               | 988               | 1,361             |
| Net foreign tax in excess of U.S. federal statutory tax rate                                   | (45)              |                   | 72                |
| Other, net                                                                                     | 1,382             | 61                | 16                |
| <b>Total income tax provision</b>                                                              | <b>\$ 113,661</b> | <b>\$ 172,903</b> | <b>\$ 161,998</b> |

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

|                                         | <b>2006</b>       | <b>2005</b>       | <b>2004</b>       |
|-----------------------------------------|-------------------|-------------------|-------------------|
| <b>Pretax income:</b>                   |                   |                   |                   |
| Domestic                                | \$ 201,987        | \$ 96,745         | \$ 184,485        |
| Foreign                                 | 460,408           | 490,945           | 548,251           |
| <b>Total income before income taxes</b> | <b>\$ 662,395</b> | <b>\$ 587,690</b> | <b>\$ 732,736</b> |

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

|                            | 2006        | 2005       | 2004       |
|----------------------------|-------------|------------|------------|
| <b>Current:</b>            |             |            |            |
| Federal                    | \$ 98,072   | \$ 85,760  | \$ 51,934  |
| Foreign                    | 42,748      | 69,912     | 80,942     |
| State                      | 1,295       | 2,627      | 2,191      |
| Total current              | \$ 142,115  | \$ 158,299 | \$ 135,067 |
| <b>Deferred (prepaid):</b> |             |            |            |
| Federal                    | \$ (22,619) | \$ 14,480  | \$ 29,981  |
| Foreign                    | (5,835)     | 124        | (3,050)    |
| Total deferred             | \$ (28,454) | \$ 14,604  | \$ 26,931  |

Table of Contents**ANALOG DEVICES, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

On October 22, 2004, the U.S. enacted the American Jobs Creation Act of 2004 ( AJCA ). The AJCA created a temporary incentive for U.S. multinational corporations to repatriate accumulated foreign income by providing an 85% dividends received deduction for certain dividends from controlled foreign corporations. The Company decided to repatriate \$1,055 million in extraordinary dividends, as defined by the AJCA, during the fourth quarter of fiscal 2005 and accordingly recorded a tax liability of \$48.7 million at October 29, 2005.

The Company continues to intend to reinvest certain of its foreign earnings indefinitely. Accordingly, no US income taxes have been provided for approximately \$946 million of unremitted earnings of international subsidiaries. As of October 28, 2006, the amount of unrecognized deferred tax liability on these earnings was \$258 million.

The significant components of the Company's deferred tax assets and liabilities for the fiscal years ended October 28, 2006 and October 29, 2005 are as follows:

|                                                | <b>2006</b> | <b>2005</b> |
|------------------------------------------------|-------------|-------------|
| <b>Deferred tax assets:</b>                    |             |             |
| Inventory reserves                             | \$ 30,302   | \$ 32,315   |
| Deferred income on shipments to distributors   | 20,696      | 19,124      |
| Reserves for compensation and benefits         | 23,833      | 32,495      |
| Tax credit carryovers                          | 42,583      | 42,196      |
| SFAS 115 mark-to-market adjustment             | 4,164       | 10,265      |
| Stock-based compensation                       | 40,704      |             |
| Depreciation                                   | 14,322      |             |
| Undistributed earnings of foreign subsidiaries | 6,896       |             |
| Other                                          | 4,862       | 5,559       |
| Total gross deferred tax assets                | 188,362     | 141,954     |
| Valuation allowance                            | (42,583)    | (42,196)    |
| Total deferred tax assets                      | 145,779     | 99,758      |
| <b>Deferred tax liabilities:</b>               |             |             |
| Depreciation                                   |             | 920         |
| Undistributed earnings of foreign subsidiaries |             | (1,981)     |
| Other                                          | (3,414)     | (674)       |
| Total gross deferred tax liabilities           | (3,414)     | (1,735)     |
| Net deferred tax assets                        | \$ 142,365  | \$ 98,023   |

The valuation allowances of \$42.6 million and \$42.2 million at October 28, 2006 and October 29, 2005, are a full valuation allowance for the Company's state credit carryovers that will begin to expire in 2007.

The Company has provided for potential liabilities due in various jurisdictions. Judgment is required in determining the worldwide income tax expense provision. In the ordinary course of global business, there are many transactions and calculations where the ultimate tax outcome is uncertain. Some of these uncertainties arise as a consequence of cost reimbursement arrangements among related entities. Although the Company believes its estimates are reasonable, no assurance can be given that the final tax outcome of these matters will not be different than that which is reflected in the historical income tax provisions and accruals. Such differences could have a material impact on the Company's income tax provision and operating results in the period in which such determination is made.

The United States Internal Revenue Service (the IRS) has completed its examination of fiscal years 2001, 2002 and 2003 and issued their report. The Company has agreed to accept this report and will file its 2006 tax return and

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has filed its 2005 tax return and an amended return for 2004 conforming to the methodologies agreed to during the 2001-2003 examination. The completion of this examination, including the reversal of accruals for taxes and penalties and the filing of refund claims in other jurisdictions associated with the completion of the IRS examination, resulted in an income tax benefit of \$35.2 million in fiscal year 2006.

The Company's income tax payable decreased by \$111 million during fiscal year 2006, which was primarily the result of tax deductions for stock options exercised over a period of several years becoming available for utilization upon completion of the IRS examination.

The Company's income tax payable at October 28, 2006 was approximately \$61 million, which included approximately \$56 million for current U.S. federal, state and foreign tax filings. The remaining \$5 million of income tax payable is for various other income taxes.

During fiscal year 2006, the IRS invited the Company to participate in the Compliance Assurance Process (CAP) which is a voluntary pilot program the IRS is conducting for a limited number of large business taxpayers. The objective of CAP is to reduce taxpayer burden associated with IRS audits while assuring the IRS of the accuracy of tax returns prior to filing. The Company has agreed to participate in CAP. Under the program, the IRS will contemporaneously work with the Company to achieve federal tax compliance and resolve issues prior to the filing of a tax return. CAP is designed to eliminate or substantially reduce the need for post-filing examinations of future tax returns. The audit of fiscal years 2004 and 2005 is currently underway.

**16. Related Party Transactions**

One of the Company's directors, who has served on the Company's Board of Directors since 1988, became a director of Taiwan Semiconductor Manufacturing Company, or TSMC, in fiscal 2002 and continues to serve as a director of TSMC. Management believes the terms and prices for the purchases of products from TSMC are not affected by the presence of one of the Company's directors on the Board of Directors of TSMC. The Company purchased approximately \$281 million, \$224 million and \$337 million of product from TSMC in fiscal years 2006, 2005 and 2004, respectively, and approximately \$17 million and \$27 million was payable to TSMC as of October 28, 2006 and October 29, 2005, respectively. Management anticipates that the Company will make significant purchases from TSMC in fiscal year 2007.

**17. Gain on Sale of Product Line**

During the second quarter of fiscal 2006, on February 21, 2006, the Company completed the sale to Ikanos Communications, Inc. of its DSP-based digital subscriber line (DSL) application-specific integrated circuit (ASIC) and network processor product line. The Company received approximately \$23.1 million in cash for the 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 \$13.0 million in nonoperating income during the second quarter of fiscal 2006.

**18. Subsequent Events**

On November 13, 2006, the Board of Directors of the Company declared a cash dividend of \$0.16 per outstanding share of common stock. The dividend will be paid on December 13, 2006 to all shareholders of record at the close of business on November 24, 2006.

On November 8, 2006, the Company became entitled to \$35 million of consideration in exchange for licensing of certain intellectual property rights to a third party. On November 9, 2006, the Company received the payment from the third party. The Company will record this as revenue in the first quarter of fiscal 2007.



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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Shareholders  
Analog Devices, Inc.

We have audited the accompanying consolidated balance sheets of Analog Devices, Inc. as of October 28, 2006 and October 29, 2005, and the related consolidated statements of income, shareholders' equity, comprehensive income, and cash flows for each of the three years in the period ended October 28, 2006. Our audits also included the financial statement schedule listed in the Index at Item 15(c). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (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 financial statements referred to above present fairly, in all material respects, the consolidated financial position of Analog Devices, Inc. at October 28, 2006 and October 29, 2005, and the consolidated results of its operations and its cash flows for each of the three years in the period ended October 28, 2006, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Analog Devices, Inc.'s internal control over financial reporting as of October 28, 2006, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated November 16, 2006 expressed an unqualified opinion thereon.

As discussed in Note 3 to the consolidated financial statements, effective October 30, 2005, the Company adopted Statement of Financial Accounting Standards No. 123(R), *Share-Based Payment*.

Boston, Massachusetts  
November 16, 2006

**Table of Contents****ANALOG DEVICES, INC.****SUPPLEMENTARY FINANCIAL INFORMATION  
(Unaudited)**

Quarterly financial information for fiscal 2006 and fiscal 2005 (thousands, except per share amounts and as noted):

|                                                | <b>4Q06</b> | <b>3Q06</b> | <b>2Q06</b> | <b>1Q06</b> | <b>4Q05</b> | <b>3Q05</b> | <b>2Q05</b> | <b>1Q05</b> |
|------------------------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Net sales                                      | 644,342     | 663,660     | 643,872     | 621,302     | 622,130     | 582,416     | 603,726     | 580,536     |
| Cost of sales                                  | 269,770     | 273,550     | 263,201     | 260,515     | 259,455     | 244,178     | 257,327     | 245,008     |
| Gross margin                                   | 374,572     | 390,110     | 380,671     | 360,787     | 362,675     | 338,238     | 346,399     | 335,528     |
| of sales                                       | 58%         | 59%         | 59%         | 58%         | 58%         | 58%         | 57%         | 58%         |
| <b>Operating expenses:</b>                     |             |             |             |             |             |             |             |             |
| Research and development                       | 137,550     | 136,061     | 131,848     | 131,288     | 123,704     | 119,217     | 126,642     | 127,534     |
| Selling, marketing, general and administrative | 100,710     | 99,663      | 97,432      | 96,281      | 84,715      | 84,407      | 85,813      | 83,341      |
| Acquired in-process research and development   | 16,211      | 5,500       |             |             |             |             |             |             |
| Special charges                                | 777         |             |             | 1,013       | 31,480      |             |             |             |
| Total operating expenses                       | 255,248     | 241,224     | 229,280     | 228,582     | 239,899     | 203,624     | 212,455     | 210,875     |
| of sales                                       | 40%         | 36%         | 36%         | 37%         | 39%         | 35%         | 35%         | 36%         |
| Operating income                               | 119,324     | 148,886     | 151,391     | 132,205     | 122,776     | 134,614     | 133,944     | 124,653     |
| of sales                                       | 19%         | 22%         | 24%         | 21%         | 20%         | 23%         | 22%         | 22%         |
| Nonoperating (income) expenses:                |             |             |             |             |             |             |             |             |
| Interest expense                               | 17          | 4           | 21          | 10          | 5           |             | 10          | 12          |
| Interest income                                | (24,301)    | (26,716)    | (25,895)    | (23,257)    | (21,285)    | (19,156)    | (16,684)    | (14,563)    |
| Other, net                                     | (211)       | 435         | (13,351)    | 2,655       | (610)       | 94          | (94)        | 568         |
| Total nonoperating (income)                    | (24,495)    | (26,277)    | (39,225)    | (20,592)    | (21,890)    | (19,062)    | (16,768)    | (13,983)    |
| Income before income taxes                     | 143,819     | 175,163     | 190,616     | 152,797     | 144,666     | 153,676     | 150,712     | 138,636     |
| of sales                                       | 22%         | 26%         | 30%         | 25%         | 23%         | 26%         | 25%         | 24%         |
| Provision for income taxes                     | 6,148       | 30,478      | 44,795      | 32,240      | 76,325      | 32,272      | 33,113      | 31,193      |
| Minority Interest                              | 748         |             |             |             |             |             |             |             |

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|                                                                 |         |         |         |         |         |         |         |         |
|-----------------------------------------------------------------|---------|---------|---------|---------|---------|---------|---------|---------|
| Income                                                          | 138,419 | 144,685 | 145,821 | 120,557 | 68,341  | 121,404 | 117,599 | 107,443 |
| of sales                                                        | 22%     | 22%     | 23%     | 19%     | 11%     | 21%     | 19%     | 19%     |
| share basic                                                     | 0.40    | 0.40    | 0.40    | 0.33    | 0.18    | 0.33    | 0.32    | 0.29    |
| share diluted                                                   | 0.39    | 0.39    | 0.39    | 0.32    | 0.18    | 0.32    | 0.31    | 0.28    |
| shares used to<br>compute earnings per<br>share (in thousands): |         |         |         |         |         |         |         |         |
| basic                                                           | 346,803 | 357,887 | 364,225 | 366,135 | 369,945 | 370,985 | 370,674 | 375,561 |
| adjusted                                                        | 357,164 | 369,542 | 376,811 | 380,337 | 380,607 | 382,830 | 382,337 | 388,107 |
| dividends declared<br>share                                     | 0.16    | 0.16    | 0.12    | 0.12    | 0.10    | 0.10    | 0.06    | 0.06    |

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

Not applicable.

**ITEM 9A. CONTROLS AND PROCEDURES**

(a) *Evaluation of Disclosure Controls and Procedures.* Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of Analog's disclosure controls and procedures as of October 28, 2006. The term disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of October 28, 2006, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

(b) *Management's Report on Internal Control Over Financial Reporting.*

**Management's Report on Internal Control Over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rule 13a-15(f) or 15d-15(f) promulgated under the Securities Exchange Act of 1934 as a process designed by, or under the supervision of, the company's principal executive and principal financial officers and effected by the company's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the company;

Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and

Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become

inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management assessed the effectiveness of our internal control over financial reporting as of October 28, 2006. In making this assessment, the company's management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework.

Based on this assessment, our management concluded that, as of October 28, 2006, our internal control over financial reporting is effective based on those criteria.

Our independent auditors have issued an audit report on our assessment of our internal control over financial reporting. This report appears below.

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Shareholders  
Analog Devices, Inc.

We have audited management's assessment, included in the accompanying Management's Report on Internal Control Over Financial Reporting, that Analog Devices, Inc. maintained effective internal control over financial reporting as of October 28, 2006, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Analog Devices, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that Analog Devices, Inc. maintained effective internal control over financial reporting as of October 28, 2006, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, Analog Devices, Inc. maintained, in all material respects, effective internal control over financial reporting as of October 28, 2006, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Analog Devices, Inc. as of October 28, 2006 and October 29, 2005, and the related consolidated statements of income, shareholders' equity, comprehensive income, and cash flows for each of the three years in the period ended October 28, 2006 of Analog Devices, Inc. and our report dated November 16, 2006 expressed an unqualified opinion thereon.

Boston, Massachusetts  
November 16, 2006

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(c) *Changes in Internal Controls.* No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act) occurred during the fiscal quarter ended October 28, 2006 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**ITEM 9B. OTHER INFORMATION**

Not applicable.

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**PART III**

**ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT**

Information required by this item relating to our directors and nominees is contained in our 2007 proxy statement under the caption Proposal 1 Election of Directors and is incorporated herein by reference. Information required by this item relating to our executive officers is contained under the caption EXECUTIVE OFFICERS OF THE COMPANY in Part I of this Annual Report on Form 10-K and is incorporated herein by reference. Information required by this item pursuant to Items 401(h) and (i) of Regulation S-K relating to an audit committee financial expert and identification of the audit committee of our Board of Directors is contained in our 2007 proxy statement under the caption Corporate Governance Board of Directors Meetings and Committees Audit Committee and is incorporated herein by reference. Information required by this item relating to compliance with Section 16(a) of the Securities Exchange Act of 1934 is contained in our 2007 proxy statement under the caption Section 16(a) Beneficial Ownership Reporting Compliance and is incorporated herein by reference.

We have adopted a written code of business conduct and ethics that applies to our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions. We intend to satisfy any disclosure requirement under Item 5.05 of Form 8-K regarding any amendments to, or waivers from, our code of business conduct and ethics by posting such information on our website which is located at [www.analog.com](http://www.analog.com).

During the fourth quarter of fiscal 2006, we made no material change to the procedures by which shareholders may recommend nominees to our Board of Directors, as described in our 2006 proxy statement.

**ITEM 11. EXECUTIVE COMPENSATION**

Information required by this item is contained in our 2007 proxy statement under the captions Corporate Governance Directors Compensation and Information About Executive Compensation and is incorporated herein by reference, provided that the sections entitled Report of the Compensation Committee and Comparative Stock Performance Graph in our 2007 proxy statement are not incorporated herein by reference.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

Information required by this item relating to security ownership of certain beneficial owners and management is contained in our 2007 proxy statement under the caption Security Ownership of Certain Beneficial Owners and Management and is incorporated herein by reference. Information required by this item relating to securities authorized for issuance under equity compensation plans is contained in our 2007 proxy statement under the caption Information About Executive Compensation Securities Authorized for Issuance Under Equity Compensation Plans and is incorporated herein by reference.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

Information required by this item is contained in our 2007 proxy statement under the caption Corporate Governance Certain Relationships and Related Transactions and is incorporated herein by reference.

**ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES**

Information required by this item is contained in our 2007 proxy statement under the caption Corporate Governance Independent Registered Public Accounting Firm Fees and Other Matters and is incorporated herein by reference.

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**PART IV**

**ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

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

**1. Financial Statements**

The following consolidated financial statements are included in Item 8 of this Annual Report on Form 10-K:

Consolidated Statements of Income for the years ended October 28, 2006, October 29, 2005 and October 30, 2004

Consolidated Balance Sheets as of October 28, 2006 and October 29, 2005

Consolidated Statements of Shareholders' Equity for the years ended October 28, 2006, October 29, 2005 and October 30, 2004

Consolidated Statements of Comprehensive Income for the years ended October 28, 2006, October 29, 2005 and October 30, 2004

Consolidated Statements of Cash Flows for the years ended October 28, 2006, October 29, 2005 and October 30, 2004

**(b) Exhibits**

The exhibits listed in the Exhibit Index immediately preceding the exhibits are filed with or incorporated by reference in this Annual Report on Form 10-K.

**(c) Financial Statement Schedules**

The following consolidated financial statement schedule is included in Item 15(c) of this Annual Report on Form 10-K:

Schedule II Valuation and Qualifying Accounts

All other schedules have been omitted since the required information is not present, or not present in amounts sufficient to require submission of the schedule, or because the information required is included in the consolidated financial statements or the Notes thereto.

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**ANALOG DEVICES, INC.  
ANNUAL REPORT ON FORM 10-K  
YEAR ENDED OCTOBER 28, 2006  
ITEM 15(c)  
FINANCIAL STATEMENT SCHEDULE**

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## ANALOG DEVICES, INC.

## SCHEDULE II VALUATION AND QUALIFYING ACCOUNTS

Years ended October 28, 2006, October 29, 2005 and October 30, 2004  
(Thousands)

| Description                                         | Balance at<br>Beginning<br>of<br>Period | Additions<br><br>Charged to<br>Income<br>Statement | Deductions | Balance at<br>End of<br>Period |
|-----------------------------------------------------|-----------------------------------------|----------------------------------------------------|------------|--------------------------------|
| <b>Accounts Receivable Reserves and Allowances:</b> |                                         |                                                    |            |                                |
| Year ended October 30, 2004                         | \$ 2,728                                | \$ 9,575                                           | \$ 7,335   | \$ 4,968                       |
| Year ended October 29, 2005                         | \$ 4,968                                | \$ 4,421                                           | \$ 5,950   | \$ 3,439                       |
| Year ended October 28, 2006                         | \$ 3,439                                | \$ 3,872                                           | \$ 4,358   | \$ 2,953                       |

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**SIGNATURES**

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

ANALOG DEVICES, INC.

By: /s/ JERALD G. FISHMAN  
 Jerald G. Fishman  
 President, Chief Executive Officer and Director  
 (Principal Executive Officer)

Date: November 20, 2006

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

| <b>Name</b>             | <b>Title</b>                                          | <b>Date</b>       |
|-------------------------|-------------------------------------------------------|-------------------|
| /s/ Ray Stata           | Chairman of the Board                                 | November 20, 2006 |
| Ray Stata               |                                                       |                   |
| /s/ Jerald G. Fishman   | President,<br>Chief Executive Officer                 | November 20, 2006 |
| Jerald G. Fishman       | and Director (Principal Executive Officer)            |                   |
| /s/ Joseph E. McDonough | Vice President-Finance<br>and Chief Financial Officer | November 20, 2006 |
| Joseph E. McDonough     | (Principal Financial and Accounting<br>Officer)       |                   |
| /s/ James A. Champy     | Director                                              | November 20, 2006 |
| James A. Champy         |                                                       |                   |
| /s/ John L. Doyle       | Director                                              | November 20, 2006 |
| John L. Doyle           |                                                       |                   |
| /s/ John C. Hodgson     | Director                                              | November 20, 2006 |
| John C. Hodgson         |                                                       |                   |
| /s/ Christine King      | Director                                              | November 20, 2006 |
| Christine King          |                                                       |                   |

|                      |          |                   |
|----------------------|----------|-------------------|
| /s/ F. Grant Saviers | Director | November 20, 2006 |
| F. Grant Saviers     |          |                   |
| /s/ Paul J. Severino | Director | November 20, 2006 |
| Paul J. Severino     |          |                   |

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| <b>Name</b>              | <b>Title</b> | <b>Date</b>       |
|--------------------------|--------------|-------------------|
| /s/ Kenton J. Sicchitano | Director     | November 20, 2006 |
| Kenton J. Sicchitano     |              |                   |
| /s/ Lester C. Thurow     | Director     | November 20, 2006 |
| Lester C. Thurow         |              |                   |

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| <b>Exhibit No.</b> | <b>Description</b>                                                                                                                                                                                                                                                                                                                                                 |
|--------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 3.1                | Restated Articles of Organization of Analog Devices, Inc., as amended, filed as an exhibit to the Company's Quarterly Report on Form 10-Q (File No. 1-7819) for the quarterly period ended May 1, 2004 as filed with the Commission on May 18, 2004 and incorporated herein by reference.                                                                          |
| 3.2                | Amended and Restated By-Laws of Analog Devices, Inc., filed as an exhibit to the Company's Current Report on Form 8-K (File No. 1-7819), as filed with the Commission on December 13, 2004 and incorporated herein by reference.                                                                                                                                   |
| *10.1              | Analog Devices, Inc. Amended and Restated Deferred Compensation Plan, filed as an exhibit to the Company's Quarterly Report on Form 10-Q (File No. 1-7819) for the quarterly period ended January 28, 2006 as filed with the Commission on February 15, 2006 and incorporated herein by reference.                                                                 |
| *10.2              | Trust Agreement for Deferred Compensation Plan dated as of October 1, 2003 between Analog Devices, Inc. and Fidelity Management Trust Company filed as an exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended November 1, 2003 (File No. 1-7819) as filed with the Commission on December 23, 2003 and incorporated herein by reference. |
| * 10.3             | First Amendment to Trust Agreement for Deferred Compensation Plan between Analog Devices, Inc. and Fidelity Management Trust Company dated as of January 1, 2005.                                                                                                                                                                                                  |
| *10.4              | Restated 1988 Stock Option Plan of Analog Devices, Inc., filed as an exhibit to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended May 3, 1997 (File No. 1-7819) as filed with the Commission on June 17, 1997 and incorporated herein by reference.                                                                                         |
| *10.5              | 1994 Director Option Plan of Analog Devices, Inc., as amended, filed as an exhibit to the Company's Form 10-K for the fiscal year ended November 2, 2002 (File No. 1-7819) as filed with the Commission on January 29, 2003 and incorporated herein by reference.                                                                                                  |
| *10.6              | 1998 Stock Option Plan of Analog Devices Inc., as amended, filed as an exhibit to the Company's Form 10-K for the fiscal year ended November 2, 2002 (File No. 1-7819) as filed with the Commission on January 29, 2003 and incorporated herein by reference.                                                                                                      |
| 10.7               | Analog Devices, Inc. 2001 Broad-Based Stock Option Plan, as amended, filed as an exhibit to the Company's Form 10-K for the fiscal year ended November 2, 2002 (File No. 1-7819) as filed with the Commission on January 29, 2003 and incorporated herein by reference.                                                                                            |
| *10.8              | 2006 Stock Incentive Plan of Analog Devices, Inc., incorporated herein by reference to Appendix A of the Company's Definitive Proxy Statement on Schedule 14A filed with the Commission on February 8, 2006 (File No. 1-7819).                                                                                                                                     |
| * 10.9             | Amendment No. 1 to 2006 Stock Incentive Plan of Analog Devices, Inc..                                                                                                                                                                                                                                                                                              |
| *10.10             | Form of Confirming Memorandum for Grants of Non-Qualified Stock Options to Employees for usage under the Registrant's 2006 Stock Incentive Plan, filed as an exhibit to the Company's Current Report on Form 8-K (File No. 1-7819), as filed with the Commission on September 25, 2006 and incorporated herein by reference.                                       |
| *10.11             | Form of Restricted Stock Agreement for usage under the Registrant's 2006 Stock Incentive Plan, filed as an exhibit to the Company's Current Report on Form 8-K (File No. 1-7819), as filed with the Commission on September 25, 2006 and incorporated herein by reference.                                                                                         |
| *10.12             | Form of Restricted Stock Unit Confirming Memorandum for usage under the Registrant's 2006 Stock Incentive Plan, filed as an exhibit to the Company's Current Report on Form 8-K (File No. 1-7819), as filed with the Commission on September 25, 2006 and incorporated herein by reference.                                                                        |
| *10.13             |                                                                                                                                                                                                                                                                                                                                                                    |

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Analog Devices BV (Ireland) Employee Stock Option Program, as amended, filed as an exhibit to the Company's Form 10-K for the fiscal year ended November 2, 2002 (File No. 1-7819) as filed with the Commission on January 29, 2003 and incorporated herein by reference.

- 10.14 BCO Technologies plc Unapproved Share Option Scheme, filed as an exhibit to the Company's Registration Statement on Form S-8 (File No. 333-50092) as filed with the Commission on November 16, 2000 and incorporated herein by reference.
  - 10.15 BCO Technologies plc Approved Share Option Scheme, filed as an exhibit to the Company's Registration Statement on Form S-8 (File No. 333-50092) as filed with the Commission on November 16, 2000 and incorporated herein by reference.
  - 10.16 ChipLogic, Inc. Amended and Restated 1998 Stock Plan, filed as an exhibit to the Company's Registration Statement on Form S-8 (File No. 333-53314) as filed with the Commission on January 5, 2001 and incorporated herein by reference.
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| <b>Exhibit<br/>No.</b> | <b>Description</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
|------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 10.17                  | Staccato Systems, Inc. 1998 Stock Plan, filed as an exhibit to the Company's Registration Statement on Form S-8 (File No. 333-53828) as filed with the Commission on January 17, 2001 and incorporated herein by reference.                                                                                                                                                                                                                                                                                                    |
| 10.18                  | Various individual stock restriction and similar agreements between the registrant and employees thereof relating to ChipLogic, Inc., filed as an exhibit to the Company's Registration Statement on Form S-8 (File No. 333-57444) as filed with the Commission on March 22, 2001, as amended by Amendment No. 1 filed as an exhibit to the Company's Post-Effective Amendment to Registration Statement on Form S-8 (File No. 333-57444) as filed with the Commission on March 23, 2001 and incorporated herein by reference. |
| *10.19                 | Employment Agreement dated November 14, 2005 between Jerald G. Fishman and Analog Devices, Inc., filed as an exhibit to the Company's Current Report on Form 8-K (File No. 1-7819) as filed with the Commission on November 15, 2005 and incorporated herein by reference.                                                                                                                                                                                                                                                     |
| *10.20                 | Letter Agreement between Analog Devices Inc. and Jerald G. Fishman dated June 21, 2000 relating to acceleration of stock options upon the occurrence of certain events, filed as an exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended October 28, 2000 (File No. 1-7819) as filed with the Commission on January 26, 2001 and incorporated herein by reference.                                                                                                                                    |
| *10.21                 | Description of Executive Performance Bonus Plan for fiscal year 2006, incorporated herein by reference to Item 1.01 in the Company's Current Report on Form 8-K (File No. 1-7819) filed January 25, 2006.                                                                                                                                                                                                                                                                                                                      |
| *10.22                 | Form of Employee Retention Agreement, as amended, filed as an exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended November 1, 1997 (File No. 1-7819) as filed with the Commission on January 28, 1998 and incorporated herein by reference.                                                                                                                                                                                                                                                          |
| *10.23                 | Employee Change in Control Severance Policy of Analog Devices, Inc., as amended, filed as an exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended October 30, 1999 (File No. 1-7819) as filed with the Commission on January 28, 2000 and incorporated herein by reference.                                                                                                                                                                                                                           |
| *10.24                 | Senior Management Change in Control Severance Policy of Analog Devices, Inc., as amended, filed as an exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended October 30, 1999 (File No. 1-7819) as filed with the Commission on January 28, 2000 and incorporated herein by reference.                                                                                                                                                                                                                  |
| 10.25                  | Amended and Restated Lease Agreement dated May 1, 1992 between Analog Devices, Inc. and the trustees of Everett Street Trust relating to the premises at 3 Technology Way, Norwood, Massachusetts, filed as an exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended November 1, 1997 (File No. 1-7819) as filed with the Commission on January 28, 1998 and incorporated herein by reference.                                                                                                         |
| 10.26                  | Guaranty dated as of May 1, 1994 between Analog Devices, Inc. and Metropolitan Life Insurance Company relating to the premises at 3 Technology Way, Norwood, Massachusetts, filed as an exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended October 30, 1999 (File No. 1-7819) as filed with the Commission on January 28, 2000 and incorporated herein by reference.                                                                                                                                |
| 10.27                  | Letter Agreement dated as of May 18, 1994 between Analog Devices, Inc. and Metropolitan Life Insurance Company relating to the premises at 3 Technology Way, Norwood, Massachusetts, filed as an exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended October 30, 1999 (File No. 1-7819) as filed with the Commission on January 28, 2000 and incorporated herein by reference.                                                                                                                       |
| 10.28                  | Reimbursement Agreement dated May 18, 1992 between Analog Devices, Inc. and the trustees of Everett Street Trust, filed as an exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended November 1, 1997 (File No. 1-7819) as filed with the Commission on January 28, 1998 and incorporated herein by reference.                                                                                                                                                                                          |

- 10.29 Lease Agreement dated August 8, 1990 between Precision Monolithics, Inc. and Bourns, Inc. relating to the premises at 1525 Comstock Road, Santa Clara, California, filed as an exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended November 3, 2001 (File No. 1-7819) as filed with the Commission on January 28, 2002 and incorporated herein by reference.
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| <b>Exhibit<br/>No.</b> | <b>Description</b>                                                                                                                                                                                                                                                                                                                                                                                                                |
|------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 10.30                  | Lease Amendment dated May 1, 1996 to the Lease Agreement dated August 8, 1990 between Analog Devices, Inc. and Bourns, Inc., relating to premises located at 1525 Comstock Road, Santa Clara, California, filed as an exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended November 3, 2001 (File No. 1-7819) as filed with the Commission on January 28, 2002 and incorporated herein by reference.     |
| 10.31                  | Lease Agreement dated June 16, 1995 between Analog Devices, Inc. and Ferrari Brothers, relating to the premises at 610 Weddell Drive, Sunnyvale, California, filed as an exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended November 3, 2001 (File No. 1-7819) as filed with the Commission on January 28, 2002 and incorporated herein by reference.                                                  |
| 10.32                  | First amendment dated March 1, 1996 to the Lease Agreement dated June 16, 1995 between Analog Devices, Inc. and Ferrari Brothers, relating to premises located at 610 Weddell Drive, Sunnyvale, California, filed as an exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended November 3, 2001 (File No. 1-7819) as filed with the Commission on January 28, 2002 and incorporated herein by reference.   |
| 10.33                  | Second amendment dated March 21, 2000 to the Lease Agreement dated June 16, 1995 between Analog Devices, Inc. and Ferrari Brothers, relating to premises located at 610 Weddell Drive, Sunnyvale, California, filed as an exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended November 3, 2001 (File No. 1-7819) as filed with the Commission on January 28, 2002 and incorporated herein by reference. |
| 10.34                  | Lease Agreement dated February 8, 1996 between Analog Devices, Inc. and Massachusetts Institute of Technology, relating to premises located at 21 Osborn Street, Cambridge, Massachusetts, filed as an exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended November 3, 2001 (File No. 1-7819) as filed with the Commission on January 28, 2002 and incorporated herein by reference.                    |
| 10.35                  | First amendment dated December 13, 1996 to Lease Agreement dated February 8, 1996 between Analog Devices, Inc. and Massachusetts Institute of Technology, relating to premises located at 21 Osborn Street, Cambridge, Massachusetts.                                                                                                                                                                                             |
| 10.36                  | Second Amendment dated December 20, 1996 to Lease Agreement dated February 8, 1996 between Analog Devices, Inc. and Massachusetts Institute of Technology, relating to premises located at 21 Osborn Street, Cambridge, Massachusetts.                                                                                                                                                                                            |
| 10.37                  | Third Amendment dated May 27, 1997 to Lease Agreement dated February 8, 1996 between Analog Devices, Inc. and Massachusetts Institute of Technology, relating to premises located at 21 Osborn Street, Cambridge, Massachusetts.                                                                                                                                                                                                  |
| 10.38                  | Lease Agreement dated November 14, 1997, as amended, between Analog Devices, Inc. and Liberty Property Limited Partnership, relating to premises located at 7736 McCloud Road, Greensboro, North Carolina.                                                                                                                                                                                                                        |
| 14                     | Analog Devices, Inc. Code of Business Conduct and Ethics, filed as an exhibit to the Company's Form 10-K for the fiscal year ended November 1, 2003 (File No. 1-7819) as filed with the Commission on January 29, 2003 and incorporated herein by reference.                                                                                                                                                                      |
| 21                     | Subsidiaries of the Company.                                                                                                                                                                                                                                                                                                                                                                                                      |
| 23                     | Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm.                                                                                                                                                                                                                                                                                                                                                      |
| 31.1                   | Certification Pursuant to Rule 13a-14(a) and 15d-14(a) of the Exchange Act, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Chief Executive Officer).                                                                                                                                                                                                                                                       |
| 31.2                   | Certification Pursuant to Rule 13a-14(a) and 15d-14(a) of the Exchange Act, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Chief Financial Officer).                                                                                                                                                                                                                                                       |
| 32.1                   | Certification Pursuant to 18 U.S.C. Section 1350 (Chief Executive Officer)                                                                                                                                                                                                                                                                                                                                                        |

32.2 Certification Pursuant to 18 U.S.C. Section 1350 (Chief Financial Officer)

Filed herewith.

- \* Management contracts and compensatory plan or arrangements required to be filed as an Exhibit pursuant to Item 15(b) of Form 10-K.