

**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

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

Document Description

Portions of the Registrant's Proxy Statement for the Annual Meeting of Shareholders to be held March 13, 2007

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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. 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 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.

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

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®. 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.

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.

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.

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 cyclicity 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.

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 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 some of our products that are subject to these uncertainties, the amount of unsaleable product could be substantial.

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 Integrand 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.

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.

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

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.

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.

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

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.

ITEM 2. PROPERTIES

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:

Principal Properties Owned:	Use	Floor Space
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.

Principal Properties Leased:	Use	Floor Space	Lease Expiration (fiscal year)	Renewals
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.

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

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

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.

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.

<u>Executive Officer</u>	<u>Age</u>	<u>Position(s)</u>	<u>Business Experience</u>
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 Telephotonics 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, Analog Devices, B.V. — Limerick, Ireland from January 1991 to November 1991.
William A. Martin	47	Treasurer	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.

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<u>Executive Officer</u>	<u>Age</u>	<u>Position(s)</u>	<u>Business Experience</u>
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.

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 Shares Purchased	Average Price Paid Per Share(a)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(b)	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
July 30, 2006 through August 26, 2006	4,074,249	\$ 29.86	4,074,249	\$ 547,793,311
August 27, 2006 through September 23, 2006	4,146,695	\$ 30.05	4,146,695	\$ 423,192,897
September 24, 2006 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

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

(thousands except per share amounts)	2006	2005	2004	2003	2002
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.

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 expressions 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*

	Fiscal Year		
	2006	2005	2004
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

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.

	Fiscal Year		
	2006	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.

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.

	Fiscal Year		
	2006	2005	2004
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.

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:

Region	Fiscal Year		
	2006	2005	2004
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

	Fiscal Year		
	2006	2005	2004
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.

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)

	Fiscal Year		
	2006	2005	2004
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.

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)

	Fiscal Year		
	2006	2005	2004
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

	Fiscal Year
	2006
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.

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

	Fiscal Year		
	2006	2005	2004
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.

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

	Fiscal Year		
	2006	2005	2004
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

	Fiscal Year		
	2006	2005	2004
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.

Net Income

	Fiscal Year		
	2006	2005	2004
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

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.

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

	Fiscal Year		
	2006	2005	2004
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.

	Fiscal Year	
	2006	2005
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

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 ^a	\$ 83,634	\$ 30,311	\$ 39,777	\$ 8,570	\$ 4,976
Deferred compensation plan ^b	31,742	1,109	2,204	—	28,429
Pension funding ^c	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.

- (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

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 Error Corrections*, 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

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

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

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.

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.

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

(thousands, except per share amounts)	2006	2005	2004
Revenue			
Net sales	\$ 2,573,176	\$ 2,388,808	\$ 2,633,800
Costs and Expenses			
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)
Earnings			
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.

ANALOG DEVICES, INC.
CONSOLIDATED BALANCE SHEETS
October 28, 2006 and October 29, 2005

(thousands, except share and per share amounts)	<u>2006</u>	<u>2005</u>
ASSETS		
Current Assets		
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	<u>3,011,302</u>	<u>3,732,456</u>
Property, Plant and Equipment, at Cost		
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
Less accumulated depreciation and amortization	1,913,248	1,860,814
Net property, plant and equipment	<u>1,350,623</u>	<u>1,260,908</u>
Other Assets		
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	<u>412,924</u>	<u>250,849</u>
	<u>\$ 3,986,851</u>	<u>\$ 4,583,211</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
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	<u>490,943</u>	<u>818,923</u>
Noncurrent Liabilities		
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	<u>59,898</u>	<u>72,787</u>
Minority interest	217	—
Commitments and contingencies (Note 13)	—	—
Shareholders' Equity		
Preferred stock, \$1.00 par value, 471,934 shares authorized, none outstanding	—	—
Common stock, \$0.16 2/3 par value, 1,200,000,000 shares authorized, 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	<u>3,435,793</u>	<u>3,691,501</u>
	<u>\$ 3,986,851</u>	<u>\$ 4,583,211</u>

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

See accompanying Notes.

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 Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Income(Loss)
	Shares	Amount			
BALANCE, NOVEMBER 1, 2003	370,234	\$ 61,707	\$ 745,501	\$ 2,477,900	\$ 2,966
Activity in Fiscal 2004					
Net income — 2004				570,738	
Dividends declared and paid				(75,007)	
Issuance of stock under stock plans and other, net of repurchases	9,433	1,572	123,684		
Tax benefit-stock options			20,279		
Issuance of common stock in connection with acquisitions	37	6	955		
Amortization of deferred stock-based compensation related to acquisitions			5,571		
Other comprehensive income					783
Common stock repurchased	(3,864)	(644)	(136,439)		
BALANCE, OCTOBER 30, 2004	<u>375,840</u>	<u>62,641</u>	<u>759,551</u>	<u>2,973,631</u>	<u>3,749</u>
Activity in Fiscal 2005					
Net Income — 2005				414,787	
Dividends declared and paid				(118,998)	
Issuance of stock under stock plans and other, net of repurchases	5,606	934	89,701		
Tax benefit-stock options			50,374		
Issuance of common stock in connection with acquisitions	10	1	541		
Amortization of deferred stock-based compensation related to acquisitions			3,095		
Other comprehensive loss					(23,013)
Common stock repurchased	(14,624)	(2,437)	(523,056)		
BALANCE, OCTOBER 29, 2005	<u>366,832</u>	<u>61,139</u>	<u>380,206</u>	<u>3,269,420</u>	<u>(19,264)</u>
Activity in Fiscal 2006					
Net Income — 2006				549,482	
Dividends declared and paid				(201,451)	
Issuance of stock under stock plans and other, net of repurchases	5,824	971	94,408		
Tax benefit-stock options			228,258		
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)	
BALANCE, OCTOBER 28, 2006	<u>342,000</u>	<u>\$ 57,001</u>	<u>\$ —</u>	<u>\$ 3,378,999</u>	<u>\$ (207)</u>

See accompanying Notes.

ANALOG DEVICES, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Years ended October 28, 2006, October 29, 2005 and October 30, 2004

(thousands)	2006	2005	2004
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.

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

(thousands)	2006	2005	2004
Operations			
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
Investing Activities			
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)	—	—
Decrease (increase) in other assets	723	5,644	(10,449)
Net cash provided (used) by investing activities	44,808	(9,959)	(689,891)
Financing Activities			
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.

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.

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:

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

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:

	<u>2006</u>	<u>2005</u>
Cash and cash equivalents:		
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
Total cash and cash equivalents	<u>\$ 343,947</u>	<u>\$ 627,591</u>
Short-term investments:		
Securities with one year or less to maturity:		
Corporate obligations	\$ 856,196	\$ 1,008,115
U.S. Government Treasury, agency and municipal notes	801,821	369,046
Total maturities less than 1 year	<u>1,658,017</u>	<u>1,377,161</u>
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	<u>126,370</u>	<u>701,190</u>
Total short-term investments	<u>\$ 1,784,387</u>	<u>\$ 2,078,351</u>

ANALOG DEVICES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

c. Supplemental Cash Flow Statement Information

	2006	2005	2004
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:

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

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.

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:

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

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 Integrand 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:

	<u>TTPCom</u>	<u>Integrand</u>	<u>AudioAsics</u>	<u>Amortization Period</u>
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	<u>\$ 13,200</u>	<u>\$ 21,596</u>	<u>\$ 8,300</u>	

* 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.

ANALOG DEVICES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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

	October 28, 2006		October 29, 2005	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
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:

Fiscal Years	Amortization Expense
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.

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.

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:

	2006	2005
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	<u>\$ 419</u>	<u>\$ (4,346)</u>

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.

	October 28, 2006		October 29, 2005	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets:				
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
Foreign Currency Instruments & Interest Rate Agreements:				
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.

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.

ANALOG DEVICES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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:

	<u>2006</u>	<u>2005</u>
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	<u>\$ (207)</u>	<u>\$ (19,264)</u>

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.

ANALOG DEVICES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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

	2006	2005	2004
Basic:			
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
Diluted:			
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
Weighted average anti-dilutive shares related to:			
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

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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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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

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 $\frac{1}{3}$ % 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.

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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:

<u>Stock Options</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
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
<u>Assumptions:</u>			
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.

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.

ANALOG DEVICES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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*.

	2005	2004
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	<u>\$ 113,233</u>	<u>\$ 363,125</u>
Earnings per share:		
Basic — as reported	\$ 1.12	\$ 1.52
Basic — pro forma	<u>\$ 0.30</u>	<u>\$ 0.97</u>
Diluted — as reported	\$ 1.08	\$ 1.45
Diluted — pro forma	<u>\$ 0.29</u>	<u>\$ 0.91</u>

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.

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:

	Options Outstanding	Weighted- Average Exercise Price Per Share	Weighted- Average Remaining Contractual Term in Years	Aggregate Intrinsic Value
Options outstanding at October 29, 2005	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		
Options outstanding at October 28, 2006	<u>84,461</u>	\$ 34.09	5.6	\$ 343,415
Options exercisable at October 28, 2006	<u>61,108</u>	\$ 33.32	4.6	\$ 308,347
Options vested or expected to vest at October 28, 2006(1)	<u>82,521</u>	\$ 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:

	Restricted Shares Outstanding	Weighted- Average Grant Date Fair Value Per Share
Non-Vested shares outstanding at October 29, 2005	—	—
Awards granted	55	\$ 35.35
Restrictions lapsed	—	—
Awards forfeited	—	—
Non-Vested shares outstanding at October 28, 2006	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.

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 Available for Grant	Restricted Awards Outstanding		Options Outstanding	
		Number	Weighted Average Price Per Share	Number	Weighted Average Price Per Share
Balance, November 1, 2003	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
Balance, October 30, 2004	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
Balance, October 29, 2005	23,457	—	—	85,489	32.75
Shares authorized for 2006 Stock Incentive Plan	15,000	—	—	—	—
Shares canceled upon termination of stock 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
Balance, October 28, 2006	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

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*.

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.

	2006	2005	2004
Sales			
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	<u>\$ 2,573,176</u>	<u>\$ 2,388,808</u>	<u>\$ 2,633,800</u>
Property, plant and equipment			
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	<u>\$ 562,625</u>	<u>\$ 599,906</u>	<u>\$ 667,779</u>

5. Special Charges

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

Income Statement	Closure of Wafer Fabrication Facility	Reorganization of Product Development and Support Programs	Total Special Charges
Fiscal 2005 Charges:			
Workforce reductions	\$ 20,315	\$ 11,165	\$ 31,480
Total Fiscal 2005 Charges	<u>\$ 20,315</u>	<u>\$ 11,165</u>	<u>\$ 31,480</u>
Fiscal 2006 Charges:			
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
Total Fiscal 2006 Charges	<u>\$ (2,029)</u>	<u>\$ 3,819</u>	<u>\$ 1,790</u>

ANALOG DEVICES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Accrued Restructuring	Closure of Wafer Fabrication Facility	Reorganization of Product Development and Support Programs	Total Special Charges
Balance at October 29, 2005	\$ 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)
Balance at October 28, 2006	\$ 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.

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

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.

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:

	<u>2006</u>	<u>2005</u>
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	<u>\$ 31,688</u>	<u>\$ 277,317</u>

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.

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:

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

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.

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:

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

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.

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.

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.

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:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
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	<u>\$ 12,326</u>	<u>\$ 8,347</u>	<u>\$ 6,771</u>
Curtailement 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.

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:

	2006	2005
Change in Benefit Obligation		
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	<u>\$ 177,975</u>	<u>\$ 163,230</u>
Change in Plan Assets		
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	<u>\$ 135,944</u>	<u>\$ 108,091</u>
Reconciliation of Funded Status		
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	<u>\$ (14,490)</u>	<u>\$ (13,097)</u>
Amounts Recognized in the Balance Sheet Consist of		
Accrued benefit liability	\$ (21,698)	\$ (22,580)
Intangible asset	25	149
Accumulated other comprehensive income	7,183	9,334
Net amount recognized	<u>\$ (14,490)</u>	<u>\$ (13,097)</u>
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

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:

	<u>2006</u>	<u>2005</u>
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:

	<u>2006</u>	<u>Strategic Target</u>
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.

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:

	2006	2005	2004
U.S. federal statutory tax rate	35.0%	35.0%	35.0%
Income tax provision reconciliation:			
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
Total income tax provision	\$ 113,661	\$ 172,903	\$ 161,998

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

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

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

	2006	2005	2004
Current:			
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
Deferred (prepaid):			
Federal	\$ (22,619)	\$ 14,480	\$ 29,981
Foreign	(5,835)	124	(3,050)
Total deferred	\$ (28,454)	\$ 14,604	\$ 26,931

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:

	2006	2005
Deferred tax assets:		
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
Deferred tax liabilities:		
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

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.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders
Analog Devices, Inc.

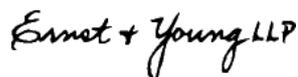
We have audited the accompanying consolidated balance sheets of Analog Devices, Inc. as of October 28, 2006 and October 29, 2005, and the related consolidated statements of income, shareholders' equity, comprehensive income, and cash flows for each of the three years in the period ended October 28, 2006. 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*.

The signature of Ernst & Young LLP is written in a cursive, handwritten style in black ink.

Boston, Massachusetts
November 16, 2006

ANALOG DEVICES, INC.
SUPPLEMENTARY FINANCIAL INFORMATION
(Unaudited)

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

	<u>4Q06</u>	<u>3Q06</u>	<u>2Q06</u>	<u>1Q06</u>	<u>4Q05</u>	<u>3Q05</u>	<u>2Q05</u>	<u>1Q05</u>
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%
Operating expenses:								
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
Purchased 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) expense	(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	—	—	—	—	—	—	—
Net 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%
Per share — basic	0.40	0.40	0.40	0.33	0.18	0.33	0.32	0.29
Per share — diluted	0.39	0.39	0.39	0.32	0.18	0.32	0.31	0.28
Shares used to compute earnings per share (in thousands):								
Basic	346,803	357,887	364,225	366,135	369,945	370,985	370,674	375,561
Diluted	357,164	369,542	376,811	380,337	380,607	382,830	382,337	388,107
Dividends declared per share	0.16	0.16	0.12	0.12	0.10	0.10	0.06	0.06

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.

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.

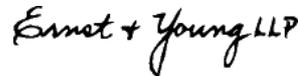
We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material 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.

The logo for Ernst & Young LLP, featuring the company name in a stylized, handwritten-style font.

Boston, Massachusetts
November 16, 2006

(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.

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.

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.

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.

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

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 Beginning of Period	Additions Charged to Income Statement	Deductions	Balance at End of Period
Accounts Receivable Reserves and Allowances:				
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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<u>Name</u>	<u>Title</u>	<u>Date</u>
<hr/> <u>/s/ KENTON J. SICCHITANO</u> Kenton J. Sicchitano	Director	November 20, 2006
<hr/> <u>/s/ LESTER C. THUROW</u> Lester C. Thurow	Director	November 20, 2006

Exhibit Index

Exhibit No.	Description
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	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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<u>Exhibit No.</u>	<u>Description</u>
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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<u>Exhibit No.</u>	<u>Description</u>
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.

FIRST AMENDMENT TO TRUST AGREEMENT BETWEEN
FIDELITY MANAGEMENT TRUST COMPANY AND
ANALOG DEVICES, INC.

THIS FIRST AMENDMENT, dated and effective as of the first day of January, 2005, by and between Fidelity Management Trust Company (the "Trustee") and Analog Devices, Inc. (the "Sponsor");

WITNESSETH:

WHEREAS, the Trustee and the Sponsor heretofore entered into a Trust Agreement dated October 1, 2003 with regard to the Analog Devices, Inc. Deferred Compensation Plan (the "Plan"); and

WHEREAS, the Trustee and the Sponsor now desire to amend said Trust Agreement as provided for in Section 14 thereof;

NOW THEREFORE, in consideration of the above premises, the Trustee and the Sponsor hereby amend the Trust Agreement by:

- (1) Deleting the seventh "Whereas" clause, which reads as follows:

WHEREAS, the Sponsor (the "Administrator") is the administrator of the Plan; and

- (2) Amending and restating the eighth "Whereas" clause to read as follows:

WHEREAS, the Trustee is willing to perform recordkeeping and administrative services for the Plan if the services are purely ministerial in nature and are provided within a framework of plan provisions, guidelines and interpretations conveyed in writing to the Trustee by the Administrator, as hereinafter defined.

- (3) Amending and restating paragraph 1(a) to read as follows:

(a) "Administrator" shall mean the Sponsor.

- (4) Replacing the term "Named Fiduciary" in the fourth sentence of Section 5(d) with "Sponsor".

- (5) Restating the definition of "Change in Control" in Section 16(a), in its entirety, as follows:

(a) Definition. A "Change in Control" means a Change in Control Event as defined in the Plan document, which is intended to be consistent with Internal Revenue Service Notice 2005-1, as modified from time to time.

Other than the revisions stated above, the remaining provisions of the Agreement remain in full force and effect.

IN WITNESS WHEREOF, the Trustee and the Sponsor have caused this First Amendment to be executed by their duly authorized officers effective as of the day and year first above written.

ANALOG DEVICES, INC.

FIDELITY MANAGEMENT TRUST COMPANY

By: /s/ Joseph E. McDonough

By: /s/ illegible

Joseph E. McDonough Date 2/28/05
V.P., Finance & CFO

Its Authorized Signatory Date 3/7/05

ANALOG DEVICES, INC.

FIRST AMENDMENT TO THE 2006 STOCK INCENTIVE PLAN

The Analog Devices, Inc. 2006 Stock Incentive Plan, pursuant to Section 13(d) thereof, is hereby amended as follows:

VOTED: That, the Corporation hereby adopts and approves an amendment to the Corporation's 2006 Stock Incentive Plan in substantially the form attached hereto as Exhibit E (such amendment referred to as "Amended Appendix A - Israel") to permit the Corporation's Israeli employees (specifically, employees, advisors and consultants of Analog Devices (Israel) Ltd. and Analog Development (Israel) 1999 Ltd.) to qualify for certain tax benefits under the tax laws of the country of Israel; and further that the CHAIRMAN OF THE BOARD, THE PRESIDENT AND CHIEF EXECUTIVE OFFICER, VICE PRESIDENT, FINANCE AND CHIEF FINANCIAL OFFICER, AND THE TREASURER OF THE CORPORATION, each of them acting singly, are hereby authorized and empowered to execute any document necessary or proper to give effect to "Amended Appendix A - Israel" under the laws and regulations of the country of Israel; and further, the aforementioned officers be, and each acting singly hereby is, authorized in the name and on behalf of the Corporation to sign, acknowledge, swear to and deliver any affidavit, agreement or other documents, each in such form as the authorized person or persons executing the same shall determine to be in the best interest of the Corporation to give proper effect to such "Amended Appendix A - Israel", the execution of any such documents to be sufficient evidence of such determination; and that the Secretary of the Corporation be authorized to attest, co-sign and affix the Corporate seal to such documents.

Approved by the Board of Directors on March 14, 2006.

ANALOG DEVICES INC.

AMENDED APPENDIX A - ISRAEL

TO THE 2006 STOCK INCENTIVE PLAN

A. 1. GENERAL

- 1.1. This appendix (the "APPENDIX") shall apply only to optionees who are employees/advisors/consultants of one of the two following companies, Analog Devices (Israel) Ltd., Analog Development (Israel) 1996 Ltd, and are residents of the state of Israel for the payment of tax. The provisions specified hereunder shall form an integral part of the 2006 Stock Incentive Plan of Analog Devices Inc. (hereinafter: the "PLAN"), which applies to the issuance of options to purchase Common Stock of Analog Devices Inc. (hereinafter: the "COMPANY"). According to the Plan, options to purchase the Company's Common Stock may be issued to employees, directors and consultants and advisors of the Company or its Affiliates
- 1.2 This Appendix is effective with respect to Options granted as of March 14, 2006 and shall comply with Amendment no. 132 of the Israeli Tax Ordinance.
- 1.3. This Appendix is to be read as a continuation of the Plan and only modifies Options granted to Israeli optionees so that they comply with the requirements set by the Israeli law in general, and in particular with the provisions of Section 102 (as specified herein), as may be amended or replaced from time to time. For the avoidance of doubt, this Appendix does not add to or modify the Plan in respect of any other category of optionees.
- 1.4. The Plan and this Appendix are complimentary to each other and shall be deemed as one. In any case of contradiction, whether explicit or implied, between the provisions of this Appendix and the Plan, the provisions set out in the Appendix shall prevail.
- 1.5. Any capitalized terms not specifically defined in this Appendix shall be construed according to the interpretation given to it in the Plan.

B. 2. DEFINITIONS

- 2.1 "AFFILIATE" means any "employing company" within the meaning of Section 102(a) of the Ordinance.
- 2.2 "APPROVED 102 OPTION" means an Option granted pursuant to Section 102(b) of the Ordinance and held in trust by a Trustee for the benefit of the optionee.
- 2.3 "CAPITAL GAIN OPTION (CGO)" means an Approved 102 Option elected and designated by the Company to qualify under the capital gain tax treatment in accordance with the provisions of Section 102(b)(2) of the Ordinance.
- 2.4 "CONTROLLING SHAREHOLDER" shall have the meaning ascribed to it in Section 32(9) of the Ordinance.
- 2.5 "EMPLOYEE" means a person who is employed by the Company or its Affiliates, including an individual who is serving as a director or an office holder, but excluding any Controlling Shareholder.
- 2.6 "ITA" means the Israeli Tax Authorities.
- 2.7 "NON-EMPLOYEE" means a consultant, adviser, service provider, Controlling Shareholder or any other person who is not an Employee.
- 2.8 "ORDINARY INCOME OPTION (OIO)" means an Approved 102 Option elected and designated by the Company to qualify under the ordinary income tax treatment in accordance with the provisions of Section 102(b)(1) of the Ordinance.
- 2.9 "OPTION" means an option to purchase one or more Common Stock of the Company pursuant to the Plan.
- 2.10 "102 OPTION" means any Option granted to Employees pursuant to Section 102 of the Ordinance.
- 2.11 "3(i) OPTION" means an Option granted pursuant to Section 3(i) of the Ordinance to any person who is a Non- Employee.
- 2.12 "OPTION AGREEMENT" means the share option agreement between the Company and a optionee that sets out the terms and conditions of an Option.
- 2.13 "ORDINANCE" means the 1961 Israeli Income Tax Ordinance [New Version] 1961 as now in effect or as hereafter amended.
- 2.14 "SECTION 102" means section 102 of the Ordinance and any regulations, rules, orders or procedures promulgated there under as now in effect or as hereafter amended.

2.15 "TRUSTEE" means any individual or entity appointed by the Company to serve as a trustee and approved by the ITA, all in accordance with the provisions of Section 102(a) of the Ordinance.

2.16 "UNAPPROVED 102 OPTION" means an Option granted pursuant to Section 102(c) of the Ordinance and not held in trust by a Trustee.

C. 3. ISSUANCE OF OPTIONS

3.1 The persons eligible for participation in the Plan as optionees shall include any Employees and/or Non-Employees of the Company or of any Affiliate; provided, however, that (i) Employees may only be granted 102 Options; and (ii) Non-Employees and/or Controlling Shareholders may only be granted 3(i) Options

3.2 The Company may designate Options granted to Employees pursuant to Section 102 as Unapproved 102 Options or Approved 102 Options.

3.3 The grant of Approved 102 Options shall be made under this Appendix adopted by the Board, and shall be conditioned upon the approval of this Appendix by the ITA.

3.4 Approved 102 Options may either be classified as Capital Gain Options ("CGOs") or Ordinary Income Options ("OIOs").

3.5 No Approved 102 Options may be granted under this Appendix to any eligible Employee, unless and until, the Company's election of the type of Approved 102 Options as CGI or OIO granted to Employees (the "ELECTION"), is appropriately filed with the ITA. Such Election shall become effective beginning the first Grant Date of an Approved 102 Option under this Appendix and shall remain in effect until the end of the year following the year during which the Company first granted Approved 102 Options. The Election shall obligate the Company to grant only the type of Approved 102 Option it has elected, and shall apply to all optionees who were granted Approved 102 Options during the period indicated herein, all in accordance with the provisions of Section 102(g) of the Ordinance. For the avoidance of doubt, such Election shall not prevent the Company from granting Unapproved 102 Options simultaneously.

3.6 All Approved 102 Options must be held in trust by a Trustee, as described in Section 4 below.

3.7 For the avoidance of doubt, the designation of Unapproved 102 Options and Approved 102 Options shall be subject to the terms and conditions set forth in Section 102.

D. 4. TRUSTEE

4.1 Approved 102 Options which shall be granted under this Appendix and/or any Common Stock allocated or issued upon exercise of such Approved 102 Options and/or other shares received subsequently following any realization of rights, including bonus shares, shall be allocated or issued to the Trustee and held for the benefit of the optionees for such period of time as required by Section 102 or any regulations, rules or orders or procedures promulgated there under (the "Holding Period"). In the case the requirements for Approved 102 Options are not met, then the Approved 102 Options shall be regarded as Unapproved 102 Options, all in accordance with the provisions of Section 102.

4.2 Notwithstanding anything to the contrary, the Trustee shall not release any Common Stock allocated or issued upon exercise of Approved 102 Options prior to the full payment of the optionee 's tax liabilities arising from Approved 102 Options which were granted to him and/or any Common Stock allocated or issued upon exercise of such Options.

4.3 Upon receipt of Approved 102 Option, the optionee will sign an undertaking to release the Trustee from any liability in respect of any action or decision duly taken and bona fide executed in relation with this Appendix, or any Approved 102 Option or Ordinary Share granted to him there under.

4.4 With respect to any Approved 102 Option, subject to the provisions of Section 102 and any rules or regulation or orders or procedures promulgated thereunder, an Optionee shall not sell or release from trust any Share received upon the exercise of an Approved 102 Option and/or any share received subsequently following any realization of rights, including without limitation, bonus shares, until the lapse of the Holding Period required under Section 102 of the Ordinance. Notwithstanding the above, if any such sale or release occurs during the Holding Period, the sanctions under Section 102 of the Ordinance and under any rules or regulation or orders or procedures promulgated thereunder shall apply to and shall be borne by such Optionee.

E. 5. THE OPTIONS

The terms and conditions upon which the Options shall be issued and exercised, shall be as specified in the Option Agreement to be executed pursuant to the Plan and to this Appendix. Each Option Agreement shall state, inter alia, the number of Common Stock to which the Option relates, the vesting provisions and the exercise price.

6. OPTION EXERCISE PRICE

Solely for the purpose of determining the tax liability pursuant to Section 102(b)(3) of the Ordinance, if at the date of grant the Company's shares are listed on any established stock exchange or a national market system or if the Company's shares will be registered for trading

within ninety (90) days following the date of grant of the CGOs, the option exercise price of the Common Stock at the date of grant shall be determined in accordance with the average value of the Company's New York Stock Exchange closing share price on the thirty (30) trading days preceding the date of grant or on the thirty (30) trading days following the date of registration for trading, as the case may be. In no case, however, shall the option exercise price be less than the closing share price of the Company's stock on the date of grant.

F. 7. EXERCISE OF OPTIONS

1. Options shall be exercised by the optionee by giving notice to the Company and/or to any third party designated by the Company (the "REPRESENTATIVE"), in such form and method as may be determined by the Company and, when applicable, by the Trustee, in accordance with the requirements of Section 102, which exercise shall be effective upon receipt of such notice by the Company and/or the Representative and the payment of the exercise price for the number of Common Stock with respect to which the option is being exercised, at the Company's or the Representative's principal office. The notice shall specify the number of Common Stock with respect to which the option is being exercised.

G. 8. ASSIGNABILITY AND SALE OF OPTIONS

8.1. Notwithstanding any other provision of the Plan, no Option or any right with respect thereto, purchasable hereunder, whether fully paid or not, shall be assignable, transferable or given as collateral or any right with respect to them given to any third party whatsoever, and during the lifetime of the optionee each and all of such optionee's rights to purchase Common Stock hereunder shall be exercisable only by the optionee.

Any such action made directly or indirectly, for an immediate validation or for a future one, shall be void.

8.2. As long as Options or Common Stock purchased pursuant to thereto are held by the Trustee on behalf of the optionee, all rights of the optionee over the shares are personal, can not be transferred, assigned, pledged or mortgaged, other than by will or laws of descent and distribution.

H. 9. INTEGRATION OF SECTION 102 AND TAX ASSESSING OFFICER'S PERMIT

9.1. With regards to Approved 102 Options, the provisions of the Plan and/or the Appendix and/or the Option Agreement shall be subject to the provisions of Section 102 and the Tax Assessing Officer's permit, and the said provisions and permit shall be deemed an integral part of the Plan and of the Appendix and of the Option Agreement.

9.2. Any provision of Section 102 and/or the said permit which is necessary in order to receive and/or to keep any tax benefit pursuant to Section 102, which is not expressly specified in the Plan or the Appendix or the Option Agreement, shall be considered binding upon the Company and the optionees.

I. 10. DIVIDEND

With respect to all Shares (but excluding, for avoidance of any doubt, any unexercised Options) allocated or issued upon the exercise of Options purchased by the Optionee and held by the Optionee or by the Trustee, as the case may be, the Optionee shall be entitled to receive dividends in accordance with the quantity of such Shares, subject to the provisions of the Company's Incorporation Documents (and all amendments thereto) and subject to any applicable taxation on distribution of dividends, and when applicable subject to the provisions of Section 102 and the rules, regulations or orders promulgated thereunder.

J. 11. TAX CONSEQUENCES

- 11.1 Any tax consequences arising from the grant or exercise of any Option, from the payment for Common Stock covered thereby or from any other event or act (of the Company, and/or its Affiliates, and the Trustee or the optionee), hereunder, shall be borne solely by the optionee. The Company and/or its Affiliates, and/or the Trustee shall withhold taxes according to the requirements under the applicable laws, rules, and regulations, including withholding taxes at source. Furthermore, the optionee shall agree to indemnify the Company and/or its Affiliates and/or the Trustee and hold them harmless against and from any and all liability for any such tax or interest or penalty thereon, including without limitation, liabilities relating to the necessity to withhold, or to have withheld, any such tax from any payment made to the optionee.
- 11.2 The Company and/or, when applicable, the Trustee shall not be required to release any share certificate to an optionee until all required payments have been fully made.

* * *

AMENDMENT # 1 TO THE LEASE BETWEEN ANALOG DEVICES, INC. ("LESSEE") AND MASSACHUSETTS INSTITUTE OF TECHNOLOGY ("LESSOR") DATED FEBRUARY 8, 1996

WHEREAS, Analog Devices, Inc. ("Analog") and Massachusetts Institute of Technology ("MIT") entered into a lease agreement (the "Lease") dated February 8, 1996 for the premises, as defined in Section 1.1 of the Lease, at 21 Osborn Street in Cambridge, Massachusetts; and

WHEREAS, Analog and MIT wish to amend the Lease.

NOW, THEREFORE, the Lease is hereby amended by replacing the second sentence of Section 1.3 with the following sentence, effective as of December 13, 1996:

"This option may be exercised by the Lessee by notice thereof to Lessor, dispatched not less than thirty (30) days prior to the date on which Lessee will take occupancy of the additional space, and upon the exercise of this option, the Premises shall include such space."

Executed as of the 13th day of December, 1996.

ANALOG DEVICES, INC.

MASSACHUSETTS INSTITUTE OF TECHNOLOGY

By: _____

By: _____

Name: _____

Name: _____

Title: _____

Title: _____

SECOND AMENDMENT TO LEASE

Agreement made as of the 20th day of December 1996 between MASSACHUSETTS INSTITUTE OF TECHNOLOGY ("Lessor") and ANALOG DEVICES, INC. ("Lessee").

WHEREAS: Lessor is the lessor and Lessee the lessee under a lease agreement (the "Lease") dated February 8, 1995 with respect to the basement, first and second floors of the building at 21 Osborn Street, Cambridge, Massachusetts (the "Building");

WHEREAS: Lessee holds an option ("Expansion Option") to expand the leased premises (the "Premises") under the Lease to include the third and fourth floors of the Building on terms set forth in the Lease;

WHEREAS: Lessee desires to exercise the Expansion Option with respect to both the third and fourth floors but on terms and conditions different from those set forth in the Lease; and

WHEREAS: Lessor has agreed to modify the Lease as set forth below:

NOW THEREFORE: the parties agree as follows:

1. Lessee has effectively exercised its Expansion Option to lease the third and fourth floors of the Building on the terms and conditions set forth in the Lease as amended hereby.

2. Lessee shall be entitled to take possession of the third floor of the Building on January 7, 1997 and shall be entitled to take possession of the fourth floor of the Building on June 1, 1998.

3. Commencing February 13, 1997, Lessee shall pay all Taxes for the Building and the Land.

4. Lessee shall commence payment of Basic Rent for the third floor of the Building commencing July 1, 1997 and shall commence payment of Basic Rent for the fourth floor of the Building commencing December 1, 1998.

5. Notwithstanding Section 1.3 of the Lease or anything to the contrary set forth in the Lease, except for Lessee's assumption of the responsibility to pay real estate taxes as set forth in paragraph 3 above, the Premises shall not include the fourth floor of the Building until June 1, 1998. Prior to that date, Lessee shall not have the right of access to the fourth floor except as expressly authorized from time to time by Lessor.

6. Except as set forth herein, the terms of the Lease are hereby confirmed to be in full force and effect.

Executed as a sealed instrument as of the date first above written.

MASSACHUSETTS INSTITUTE OF TECHNOLOGY

By: /s/ Philip A. Trussell

Philip A. Trussell, its
Director of Real Estate
and Assistant Treasurer

ANALOG DEVICES, INC.

By: /s/ William A. Martin

William A. Martin
Treasurer

THIRD AMENDMENT TO LEASE

Agreement made as of the 27th day of May, 1997 between MASSACHUSETTS INSTITUTE OF TECHNOLOGY ("Lessor") and ANALOG DEVICES, INC. ("Lessee").

WHEREAS: Lessor is the lessor and Lessee the lessee under a lease agreement (the "Lease") dated February 8, 1995 with respect to the building at 21 Osborn Street, Cambridge, Massachusetts (the "Building") as previously amended;

WHEREAS: Lessee expanded the Leased Premises to include the third and fourth floors of the Building by its exercise of an expansion option on terms set forth in the Lease as modified by prior amendments which enabled the Lessee to defer taking possession of the fourth floor until June 1, 1998 and to defer payment of Basic Rent with respect to that floor until December 1, 1998;

WHEREAS: Lessee desires to take possession of the fourth floor of the Building, effective as of this date, and has agreed that the commencement date for payment of Basic Rent with respect to that floor shall be advanced to December 1, 1997; and

WHEREAS: Lessor has agreed to modify the Lease as set forth below: NOW THEREFORE: the parties agree as follows:

1. Lessee shall be entitled to take possession of the fourth floor of the Building on May 27, 1997.
2. Lessee shall commence payment of Basic Rent for the fourth floor of the Building commencing December 1, 1997.
3. Except as set forth herein, the terms of the Lease as previously amended are hereby confirmed to be in full force and effect.

Executed as a sealed instrument as of the date first above written.

MASSACHUSETTS INSTITUTE OF TECHNOLOGY

By: /s/ Philip A. Trussell

Philip A. Trussell, its
Director of Real Estate
and Assistant Treasurer

ANALOG DEVICES, INC.

By: /s/ William A. Martin

William A. Martin
Treasurer

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WITNESSETH that ONE TRIAD CENTER ASSOCIATES (the Landlord), a North Carolina Partnership, hereby leases unto ANALOG DEVICES, INC. having its principal place of business at One Triad Center, Greensboro, North Carolina 27409 (the Tenant), and the Tenant accepts from Landlord, the premises containing approximately 23,734 square feet located on the first floor outlined on the floor plans hatched in black and attached hereto as Exhibit A (the "Premises") in the Building known as "One Triad Center" (the "Building"), the Building, together with the land on which it is located and all other improvements thereon being called the Property), for the term, the rent, and subject to the conditions and covenants hereinafter provided.

In Consideration thereof, the parties covenant and agree as follows:

1. Term and Possession

(a) Duration. The term of this Lease shall commence upon the date of execution of this Lease (the "Commencement Date"). The term shall continue for a period terminating on December 31, 2000, unless extended or sooner terminated as herein provided. During any period of time prior to the commencement date in which Tenant takes full or partial possession of the Premises for the purpose of making its improvements thereto or otherwise, Tenant shall be bound by all the terms and provisions hereof other than the requirement of payment of minimum rent. It is understood and agreed that the Commencement Date and occupancy may be extended to the date of execution of the prior tenant's lease termination agreement.

(b) Memoranda. When the date of commencement of the term of this Lease is established, Landlord and Tenant shall promptly execute and acknowledge a memorandum in form substantially as set forth in Exhibit "B" hereto, containing the information set forth in said Exhibit.

2. Rent

(a) Rent shall accrue and be payable effective January 1, 1998, Rent shall accrue and be payable during the term as follows: minimum annual rent shall be equal to Three Hundred Fifty Thousand Seventy-Six and 50/100 Dollars (\$350,076.50) payable in equal monthly installments of Twenty-Nine Thousand One Hundred Seventy Three and 04/100 Dollars (\$29,173.04) for a term of January 1, 1998 through June 30, 1998. In addition, Tenant shall pay an additional \$.29 per square foot for Operating Expenses and Taxes for the term of January 1, 1998 through December 31, 1998 and thereafter as set forth in Paragraph 3(b) hereof. Beginning July 1, 1998, the minimum annual rent shall be equal to Three Hundred Eighty-Five Thousand Six Hundred Seventy-Seven and 50/100 Dollars (\$385,677.50) payable in equal monthly installments of Thirty-Two Thousand One Hundred Thirty-Nine and 79/100 Dollars (\$32,139.79). Such minimum annual rent shall be payable in advance, in equal monthly installments of one twelfth (1/12th) of the annual amount, the first monthly installment to be payable upon

the commencement date of the term of this Lease, subject to proration based upon a thirty day month if such commencement date is other than the first day of a month, and subsequent monthly installments to be payable on the first day of each successive month of the term hereof following the first month of such term.

(b) In addition to the rental payable under Section 3 hereof, the minimum annual rental payable hereunder by Tenant shall be increased as of the first day of each lease year commencing July 1, 1399 (the "CPI Increase Date") as set forth below, without duplication.

(i) "Index" - The Index shall mean the index now known as The United States Bureau of Labor Statistics, Department of Labor, Consumer Price Index for All Urban Consumers, United States city average, all items (1982-84 - 100). In the event the foregoing Index shall hereafter be converted or otherwise revised, "Index" shall mean such index or combination of indices as Landlord shall select, from any available indices, for the purposes of this Section. If the said Bureau shall cease publication of indices relating to the foregoing statistical information, "Index" shall mean such index or combination of indices of similar statistical information as Landlord shall select for the purposes of this Section.

(ii) "Base Index" shall mean the Index for the month two (2) months prior to the month in which the term of this Lease shall commence.

(iii) "Anniversary Index" shall mean the Index for the month (the "Anniversary Month") two months prior to the month in which the CPI Increase Date shall occur.

(iv) "Cost of Living Increase" shall mean a fraction, the numerator of which shall be the Index in an Anniversary Month less the Base Index, and the denominator of which shall be the Base Index.

Landlord shall furnish to Tenant, after the Index for each Anniversary Month is published, a statement setting forth the Base Index, the Index for that Anniversary Month, and the Cost of Living Increase. If the Index for that Anniversary Month shall exceed the Base Index, there shall accrue, and be payable by Tenant on the first day of each calendar month in equal monthly installments as additional minimum rent, for and with respect to each twelve month (12) month period on and after the CPI Increase Date, an amount determined by multiplying the Cost of Living Increase times the minimum annual rental under Section 2.(a) at the commencement date of this Lease. Should the foregoing calculations be delayed beyond the CPI Increase Date for any year, on or before the tenth (10th) day following submission of said statement to Tenant, Tenant shall pay to Landlord a lump sum equal to one-twelfth (1/12) of said additional minimum annual rent multiplied by the number of full or partial calendar months elapsed from said CPI Increase Date to the end of the month in

which the day of payment occurs. On the first day of each succeeding calendar month, Tenant shall pay to Landlord one-twelfth (1/12) of said additional minimum annual rent.

3. Rent Adjustment: Increases in Operating Expenses and Taxes

(a) Definitions. As used in this Paragraph 3, the following terms shall be defined as hereinafter set forth:

(i) "Taxes" shall mean all taxes, assessments, and charges levied upon or with respect to the Property or any personal property of Landlord used in the operation thereof, or Landlord's interest in the Property or such personal property. Taxes shall include, without limitation, all general real property taxes and general and special assessments, charges, fees, or assessments for transit, housing, police, fire, or other governmental services or purported benefits to the Property, service payments in lieu of taxes, and any tax, fee, or excise on the act of entering into this Lease or any other lease of space in the Building, on the use or occupancy of the Building or any part thereof, or on the rent payable under any lease or in connection with the business of renting space in the Building, that are now or hereafter levied or assessed against Landlord by the United States of America, the State of North Carolina, or any political subdivision, public corporation, district, or other political or public entity. Taxes shall also include any other tax, fee, or other excise, however described, that may be levied or assessed as a substitute for or as an addition to, in whole or in part, any other Taxes, whether or not now customary or in the contemplation of the parties on the date of this Lease. Taxes shall not include franchise, transfer, inheritance, or capital stock taxes or income taxes measured by the net income of Landlord from all sources, unless, due to a change in the method of taxation, any such tax is levied or assessed against Landlord as a substitute for or as an addition to, in whole or in part, any other tax that would otherwise constitute a property Tax. Taxes shall also include reasonable legal fees, costs, and disbursements incurred in connection with proceedings to contest, determine, or reduce Taxes.

(ii) "Operating Expenses" shall include all expenses, costs and charges paid or incurred by Landlord for the management, operation, maintenance and repair ("repair" as used in connection with operating expenses shall not include

alterations or other capital expenditures made by Landlord, but shall include the cost of any capital improvements made that were required under any governmental law or regulation that was not applicable to the Premises at the time of delivery of possession of the Premises to Tenant for the benefit of the Premises) of the Land and Building (as a first class office building) and shall include, but not be limited to, the following:

(A) "Labor Costs" (as hereinafter defined) for first class office buildings, for the services of the following classes of employees performing services required in connection with the operation, repair and maintenance of the Building:

- (1) the Building superintendent, his assistants and the clerical staff attached to the Building superintendent's office;
- (2) window cleaners and miscellaneous handymen;
- (3) cleaners and janitors employed in and about the Building for the performance of services;
- (4) watchmen and persons engaged in patrolling and protecting the Building;
- (5) carpenters, engineers, mechanics, electricians, painters and plumbers engaged in the operation, repair and maintenance of any part of the Building, the sidewalks around the Building and the heating, air-conditioning, ventilating, plumbing, electrical, elevator and other such systems of the Building;
- (6) such other personnel employed from time to time in order to properly maintain and operate the Building; and
- (7) personnel engaged exclusively in supervision of any of the persons mentioned above in subparagraphs (1) through (6).

(B) The cost of materials and supplies used only in the operation, repair and maintenance of the Building.

(C) The cost of replacement for tools and equipment used on the operation, repair and maintenance of the Building.

(D) The amounts paid to managing agents for the Building employed by Landlord, or for reasonable legal, accounting or other professional fees [necessarily incurred in connection with the operation of the Building].

(E) Amounts charged to Landlord by contractors for services, materials and supplies furnished in connection with the operation, repair and maintenance of any part of the Building and Land, and the heating, air-conditioning, ventilating, plumbing, electrical, elevator and other systems of the Building.

(F) Amounts charged to Landlord by contractors for window cleaning, and cleaning and janitorial services in and about the Building;

(G) Premiums paid by Landlord for All Risk Insurance for the Building, including, without limitation, fire insurance, with such extended coverage, vandalism and malicious mischief coverage, and rent insurance coverage, of the type and character usually carried by landlords of similar first class buildings and premiums paid for comprehensive general public liability insurance against claims for bodily injury, death or property damage, and if carried by Landlord,

boiler and machinery insurance and war risk insurance, and such other insurance as may from time to time be reasonably required by Landlord to protect Landlord against other insurable hazards, which at the time are commonly insured against in the case of premises similar to the Building.

(H) Water charges and sewer rents.

(I) The cost of utilities necessary for the operation, maintenance and repair of the Building.

(J) The cost of electricity (including with out limitation, fuel adjustment charges) used to operate lighting fixtures, power appliances, machinery, heating, ventilation and air-conditioning equipment and all equipment used in connection with the operation, maintenance and repair of the Building and the offices therein located.

(K) Any other expense or charge which, in accordance with sound accounting and management principles generally accepted with respect to first class buildings in Greensboro, North Carolina, would be construed as an operating expense.

Operating Expenses shall be "net only", and for that purpose shall be reduced by the amounts of any reimbursement, credit, recoupment, discount, or allowance received by Landlord in connection with such expenses.

"Labor Costs" shall mean all expenses incurred by Landlord or on Landlord's behalf which shall be directly related to employment of personnel, including but not limited to, amounts incurred for wages, salaries and other compensation for services, payroll, social security, unemployment and other similar taxes, workmen's compensation insurance, disability benefits, pensions, hospitalization, retirement plans and group insurance, uniforms and working clothes and the cleaning thereof, and expenses imposed on or on behalf of the Landlord pursuant to any collective bargaining agreement.

The following items shall be excluded from Operating Expenses:

(i) Labor Costs in respect of officers and executives of Landlord or individual partners of a successor of Landlord if such successor be a partnership.

(ii) Any insurance premium to the extent that Landlord is reimbursed for such premium.

(iii) The cost of any items for which Landlord is reimbursed by insurance.

(iv) The cost of any additions to the Building subsequent to the date of original construction or any alterations or refurbishing of space leased to other tenants of the Building.

If the Landlord is not furnishing any particular work or service which Landlord is obligated to perform under this Lease (the cost of which if performed by the Landlord would constitute an Operating Expense) to a tenant who has undertaken to perform such work or service in lieu of the performance thereof by the Landlord, Operating Expenses shall be deemed for the purposes of this section to be adjusted downward by an amount equal to the additional Operating Expense which would reasonably have been incurred during such period by the Landlord if it had at its own expense furnished such work or service to such tenant.

(b) Share of Operating Expenses and Taxes. For and with respect to each calendar year of the term of this Lease that the "Operating Expenses and Taxes" as hereinabove defined exceed the "Operating Expenses and Taxes" for 1998 (the "Base Year"), there shall accrue, as additional rent, Tenant's Share of Operating Expenses and Taxes, being a percentage of such excess Operating Expenses and Taxes based on Tenant's rentable square footage as related to the total rentable square footage in the Building. Such additional rent shall be on a per-diem basis for any partial calendar year included within the beginning and end of the term. Any additional rent under this Paragraph shall be paid by Tenant as a lump sum after the end of the calendar year for which such payment is first due, and within thirty (30) days after submission of a bill therefor. In addition, Tenant shall pay as estimated additional monthly rent one-twelfth of the amount of such additional rent, per month for each calendar month during the calendar year immediately succeeding the calendar year in which the actual operating expenses and taxes were incurred, with such procedure being followed for each year thereafter. If such estimated additional monthly rental payments for any calendar year exceed the actual additional monthly rent under this Section 3 for such year, such excess shall be applied as a credit against subsequent payments of estimated additional monthly rent. The portion of such additional rent allocable to the months of the then current calendar year (including the month in which such notice is received) which have then elapsed (computed on the basis of one-twelfth of Tenant's pro rata portion of such increases for each elapsed month) shall be due and payable to Landlord forth with; thereafter, Tenant shall pay on the first day of each calendar month one-twelfth of the amount of such additional rent.

(c) Operating Expense and Tax Statements. Landlord shall furnish to Tenant, contemporaneously with the furnishing of billings to Tenant on account of Operating Expense and Taxes as hereinbefore provided, a comparative statement setting forth in reasonable detail the basis for the amount due by Tenant. Any such comparative statement shall be deemed approved by Tenant unless within thirty (30) days after the furnishing thereof, Tenant shall notify Landlord that it disputes the correctness of the statement, specifying in detail the basis for such assertion. Pending the resolution of such dispute, however, Tenant shall make payment in accordance with said comparative statement.

(d) Survival After Termination. If, upon termination of this Lease for any cause, the amount of any additional rent due pursuant to this Section 3 has not yet been determined, Tenant

shall pay Landlord an estimated amount of additional rent as determined by Landlord based upon the preceding year's additional rent and, an appropriate payment from Tenant to Landlord, or refund from Landlord to Tenant, shall be made promptly after such determination.

(e) Reduction or Elimination of An Operating Expense Component. If, during any calendar year, there shall be a reduction or elimination of any particular component of Operating Expenses by reason of the introduction of a labor saving device, energy conservation device, capital improvement or replacement installed by Landlord, the corresponding item of expense in the Operating Expense for the Base Year, shall be eliminated or reduced (in the same proportion as the reduction of that item in the period set forth below). The reduction of the operating expense item in the Base Year shall be made on an annualized basis, in the same proportion as the reduction of that item for the first 12 months of the new operation.

(f) Essential Capital Improvement. In the event Landlord shall hereafter make a capital expenditure for an "Essential Capital Improvement", as hereinafter defined in this Section, the annual amortization of such expenditure (determined by dividing the amount of the expenditure by the reasonable useful life of the improvement) shall be deemed a cost to be included within "Operating Expenses" for each year of such useful life. As used herein, an "Essential Capital Improvement" means any one or more of the following:

(i) a labor saving device or other installation, improvement or replacement which reduces Operating Expenses, whether or not voluntary or required by governmental mandate; or

(ii) an installation or improvement required by reason of any law, ordinance or regulation of any governmental or quasigovernmental body, which requirement did not exist on the date hereof, and is applicable generally to similar office buildings in the City of Greensboro, North Carolina; or

(iii) an installation or improvement which directly enhances the safety of tenants in the Building generally, whether or not voluntary or required by governmental mandate (as, for example, but without limitation, for fire safety or security).

In no event shall an Essential Capital Improvement be treated as an Operating Expense component as described under Section 3(e) above.

In determining Operating Expenses for any year, including the Base Year for Operating Expenses, if less than 95% of the rentable area of the Building shall have been occupied by tenants for more than thirty (30) days during such year, Operating Expenses shall be deemed for such year to be an amount equal to the expenses which would be incurred had such occupancy of the Building been 95%

throughout such year, as reasonably determined by Landlord, except that in no event shall Operating Expenses for any year be based upon a percentage of occupancy less than that utilized for the Base Year for Operating Expenses.(

(g) For the purpose of this Section, Tenant's Proportionate Share of Operating Expenses and Taxes shall be 32.07% which is based on the gross rentable square foot area of the demised premises of 23,734 sq. ft. as it relates to the gross rentable square foot area of the Building of 74,000 square feet.

(h) Tenant may review Landlord's books and records related to Operating Expenses and Taxes and the calculation of Tenant's Proportionate Share during regular business hours upon forty-eight (48) hours notice.

4. Improvement of the Demised Premises

(a) Tenant's Plans. Landlord or Tenant with Landlord's written approval agrees to perform work in the Premises as shown on Tenant's Layout Plans, as prepared by Tenant, and attached hereto and made a part hereof, which plans designate the construction and finishing of the Premises for Tenant's occupancy. Tenant's Layout Plans shall be in conformity with the floor plans annexed hereto as Exhibit "A" and with all applicable laws and requirements of public authorities. Tenant's Layout Plans shall designate, among other things, the locations of and specifications for all plumbing, electrical and mechanical equipment to be installed in the Premises, all partitions, doors, lighting fixtures, electric receptacles and switches, telephone outlets and special air-conditioning and other installations.

(b) Tenant's Improvement Plans. Tenant's Layout Plans and Finish Plans are collectively referred to in this Lease as "Tenant's Improvement Plans". The work required to be performed pursuant to Tenant's Improvement Plans and the Engineering Plans is herein sometimes referred to as "Tenant Work."

(c) Tenant's Work. Tenant shall complete and prepare the Premises for Tenant's initial occupancy in a good and workmanlike manner substantially in accordance with Tenant's Improvement Plans and the Engineering Plans. Landlord reserves the right, however:

(1) to make substitutions of material of equivalent grade and quality when and if any specified material shall not be readily and reasonably available, and

(ii) to make changes necessitated by conditions met in the course of construction, provided that Tenant's approval of any substantial change shall first be obtained (which approval shall not be unreasonably withheld or delayed so long as there shall be general conformity with Tenant's Improvement Plans).

(d) Charges for Work. In the completion and preparation of the Premises in accordance with Tenant's Improvement Plans, Tenant agrees to perform at its own expense those items of the work set forth on Exhibit "C" attached hereto (herein referred to as "Standard Tenant Work") as shall be reflected in Tenant's Improvement Plans. All work performed by Tenant in addition to or

in substitution for Standard Tenant Work is hereinafter referred to as "Special Tenant Work". All special Tenant Work shall be furnished, installed and performed by Tenant upon Landlord's

written approval of such Special Tenant Work and at Tenant's expense, utilizing a general contractor ("Tenant's Contractor") approved by Landlord. Unless otherwise agreed in writing, the charge to Tenant for Special Tenant Work shall be Tenant's out-of-pocket expenses of every kind and nature in connection therewith, including without limitation Tenant's contract or purchase price for materials, labor and services.

(e) Tenant's Contractor. Tenant may at its sole expense select and employ its own contractors for specialized finishing work in the Premises which is not to be performed by Landlord and which is reflected as such in Tenant's Improvement Plans, such as carpeting, telephone installation, special cabinet work and millwork, decoration and installation of specialized equipment, subject to the following qualifications:

(1) Tenant shall first obtain the approval of Landlord, in writing, of the specific work it proposes to perform and shall furnish Landlord with reasonably detailed plans and specifications therefor (such approval not to be unreasonably withheld);

(2) The work shall be performed by responsible contractors and subcontractors approved in advance by Landlord, who shall not, in Landlord's reasonable opinion, prejudice Landlord's relationship with Landlord's contractors or subcontractors or the relationship between such contractors and their subcontractors or employees, or disturb harmonious labor relations, who shall furnish in advance and maintain in effect Workmen's Compensation Insurance in accordance with statutory requirements and comprehensive public liability insurance (naming, Landlord and Landlord's contractors and subcontractors and Landlord's managing agent as additional insureds) with limits satisfactory to Landlord, and who shall, prior to the commencement of any work, file waivers of mechanic's liens on account of the work to be performed by any of Tenant's contractors, sub-contractors or materialmen;

(3) No such work shall be performed in such manner or at such times as to interfere with any work being done by any of Landlord's contractors or subcontractors in the Premises or in the Building or about the Property generally. Landlord shall, however, endeavor to allow Tenant access for such work prior to the commencement of the term hereof at the earliest time consistent with the restrictions of this subsection (g);

(4) Tenant and its contractors and subcontractors shall be solely responsible for the transportation, safekeeping and storage of materials and equipment used in the performance of such finishing work, for the removal of waste and debris resulting therefrom, and for any damage caused by them to any installation or work performed by Landlord's contractors and subcontractors; and

(5) Tenant's contractors and subcontractors shall be subject to the general administrative supervision of Landlord's general contractor for scheduling purposes, but said general contractor of Landlord shall not be responsible for any aspect of the work performed by Tenant's contractors or subcontractors or for the coordination of the work of Landlord's contractors with Tenant's contractors.

5. Services

The Landlord shall provide, at Landlord's expense, except as otherwise provided, the following services on Monday through Friday from 8:00 A.M. to 6:00 P.M., and on Saturday from 8:00 A.M. to 1:00 P.M., legal holidays excepted.

(a) Reasonable quantities of water to lavatories, toilets and water fountains in or appurtenant to the Premises.

(b) Reasonable amounts of electric current as are customarily provided in Class A office space. If tenant shall require electric current in excess of that usually furnished or supplied for use of the Premises as general office space, Tenant shall first procure the consent of the Landlord which consent Landlord may refuse. In the event Landlord shall approve Tenant's request for excess electric current, Landlord may cause an electric check meter to be installed in the Premises or Landlord shall have the right to cause a reputable independent electrical engineer or consulting firm to survey and determine the value of such excess electric current. The cost of any such survey or meters and installation, maintenance and repairs thereof shall be paid for by Tenant. Tenant agrees to pay the Landlord, promptly upon demand therefor, for all such excess electrical current consumed plus any additional expenses incurred in keeping account of the excess electrical current so consumed. Tenant covenants and agrees that at all times its use of electrical current shall never exceed Tenant's proportionate share of the capacity of existing feeders to the Building or the riser or risers or wiring installation. Any riser or wiring to meet Tenant's excess electric requirements upon written request of Tenant, will be installed by Landlord at the sole cost and expense of Tenant, if in Landlord's sole judgment, the same is necessary and will not cause permanent damage or injury to the Building or the Premises or cause or create a dangerous or hazardous condition or entail excessive or unreasonable alteration, repairs or expenses or interfere with or disturb other tenants or occupants.

(c) HVAC. Landlord shall furnish heat, ventilation and air-conditioning to the Premises, Monday through Friday from 8:00 A.M. to 6:00 P.M., and on Saturday from 8:00 A.M. to 1:00 P.M., legal holidays excepted. Heat and air-conditioning required by Tenant at times other than those mentioned above shall be supplied upon reasonable prior notice, and shall be paid for by Tenant, promptly upon billing, at such rates as Landlord shall from time to time establish therefor. The heating and air-conditioning systems intended to service the Premises have been designed to be capable of providing comfortable occupancy for normal office uses. Any additional or supplementary heating or cooling systems

required or desired by Tenant may be installed by Tenant, at Tenant's cost, in accordance with the provisions of Paragraph 4 hereof. The furnishing of heat and air-conditioning shall be subject to any statute, ordinance, rule, regulation, resolution or recommendation for energy conservation which may be promulgated by

any governmental agency or organization which Landlord shall be required to abide by, or in good faith may elect to abide with.

(d) Janitorial. Landlord shall provide janitorial services to all portions of the Premises as specified on Exhibit "D" annexed hereto. Any and all additional or specialized janitorial service desired by Tenant may be contracted for by Tenant directly with Landlord's janitorial agent, and the cost and payment therefor shall be and remain the sole responsibility of Tenant.

(e) Landlord will keep in operation in the Building during the aforesaid business period, as many of the passenger elevators as in Landlord's judgment are necessary to maintain elevator service. In case of accident, labor strikes, repairs, renewals or improvements to the Building or machinery therein, or for other cause deemed sufficient by Landlord, or those acting for Landlord, the operation of said elevators and other machinery may be changed or suspended.

Landlord reserves the right to alter the hours during which the above services are to be provided during the term hereof; however services as are customarily offered in Class A office space shall be provided.

Should Tenant require any additional work or service, including but not limited to the additional work or service described above, including service furnished outside the stipulated hours, Landlord may, on terms to be agreed, upon reasonable advance notice by Tenant, furnish such additional service and Tenant agrees to pay the Landlord such charges as may be agreed on, but in no event at a charge less than Landlord's actual cost plus overhead for the additional services provided.

It is understood that Landlord does not warrant that any of the services referred to above, or any other services which Landlord may supply, will be free from interruption, Tenant acknowledging that any one or more such services may be suspended by reason of accident or of repairs, alterations or improvements necessary to be made, or by strikes or lockouts, or by reason of operation of law, or causes beyond the reasonable control of Landlord. Any such interruption or discontinuance of service shall never be deemed an eviction or disturbance of Tenant's use and possession of the Premises, or any part thereof, or render Landlord liable to Tenant for damages by abatement of rent or otherwise, or relieve Tenant from performance of Tenant's obligations under this Lease.

6. Quiet Enjoyment

So long as the Tenant shall observe and perform the covenants and agreements binding on it hereunder, the Tenant shall at all times during the term herein granted peacefully and quietly have and enjoy possession of the Premises without any encumbrance or hindrance by, from or through the Landlord, subject to Section 29.

7. Certain Rights Reserved To The Landlord

The Landlord reserves all rights with respect to the Property not Leased to Tenant hereby, including without limitation, the following rights:

(a) To name the Building and/or to change the name or street address of the Building.

(b) To install and maintain a sign or signs on the exterior or interior of the Building.

(c) To designate all sources furnishing sign painting and lettering, ice, drinking water, towels, toilet supplies, shoe shining, vending machines, mobile vending service, catering, and like services used on the Premises or in the Building.

(d) During the last ninety (90) days of the term, if during or prior to that time the Tenant vacates the Premises, to decorate, remodel, repair, alter or otherwise prepare the Premises for reoccupancy, without affecting Tenant's obligation to pay rental for the Premises.

(e) To constantly have pass keys to the Premises.

(f) On reasonable prior notice to the Tenant, to exhibit the Premises to prospective tenants during the last twelve (12) months of the term, and to any prospective purchaser, mortgagee, or assignee of any mortgage on the Property and to others having a legitimate interest at any time during the term.

(g) At any time in the event of an emergency, and otherwise at reasonable times, to take any and all measures, including inspections, repairs, alterations, additions, and improvements to the Premises or to the Building, as may be necessary or desirable for the safety, protection or preservation of the Premises or the Building or the Landlord's interests, or as may be necessary or desirable in the operation or improvement of the Building or in order to comply with all laws, orders and requirements of governmental or other authority.

(h) To install vending machines of all kinds in the Premises, and to provide mobile vending service therefor, and to receive all of the revenue derived therefrom, provided, however, that no vending machines shall be installed by Landlord in the Premises nor shall any mobile vending service be provided therefor, unless Tenant so requests.

8. Estoppel Certificate by Tenant

The Tenant agrees that from time to time upon not less than ten (10) days prior request by the Landlord, the Tenant will deliver to the Landlord a statement in writing certifying (a) that this Lease is unmodified and in full force and effect (or if there have been modifications that the same is in full force and effect as modified and identifying the modifications), (b) the dates to which the minimum annual rent and other charges have been paid, (c) whether or not Tenant has or claims any offset, deduction or counter claims against Landlord under this Lease and (d) that, so far as the person making the certificate knows, the Landlord is not in default under any provision of this Lease, and, if the Landlord is in default, specifying each such default of which the person making the certificate may have knowledge, it being understood that any such statement so delivered may be relied upon by any landlord under any ground or underlying lease, or any prospective purchaser, mortgagee, or any assignee of any mortgage on the Property.

9. Waiver of Certain Claims

The Tenant, to the extent permitted by law, waives all claims it may have against the Landlord, and against the Landlord's agents and employees for damage to person or property sustained by the Tenant or by any occupant of the Premises, or by any other person, resulting from any part of the Property or any equipment or appurtenances becoming out of repair, or resulting from any accident in or about the Property or resulting directly or indirectly from any act or neglect of any tenant or occupant of any part of the Property or of any other person, unless such damage is a result of the negligence or contributory negligence of Landlord, or Landlord's agents or employees. If any damage results from any act or neglect of the Tenant, the Landlord may, at the Landlord's option, repair such damage and the Tenant shall thereupon pay to the Landlord the total cost of such repair.

All personal property belonging to the Tenant or any occupant of the Premises that is in or on any part of the Property shall be there at the risk of the Tenant or of such other person only, and the Landlord, its agents and employees shall not be liable for any damage thereto or for the theft or misappropriation thereof unless such damage, theft or misappropriation is a result of the negligence or contributory negligence of Landlord or Landlord's agents or employees. The Tenant agrees to hold the Landlord harmless and indemnified against claims and liability for injuries to all persons and for damage to or loss of property occurring in or about the Property, due to any act of negligence or default under this lease by the Tenant, its contractors, agents or employees.

To the extent that the Tenant carries hazard insurance on any of its property in the Premises and to the extent that the Landlord carries hazard insurance on the Property, each policy of insurance shall contain, if obtainable from the insurer selected by the Tenant or the Landlord, as the case may be, without additional expense, a provision waiving subrogation against the other party to this Lease. If such provision can be obtained only at additional expense, the obligation to obtain such provision shall continue if the other party, on notice shall pay the amount of such additional expense. Each of the parties hereto hereby releases the other with respect to any liability which the other may have for any damage by fire or other casualty with respect to which the party against whom such release is claimed shall be insured under a policy or policies of insurance containing such provision waiving subrogation.

10. Liability Insurance

Tenant shall, at its expense, maintain during the term, comprehensive public liability insurance, contractual liability insurance and property damage insurance under policies issued by insurers, with limits of not less than \$5,000,000 for personal injury, bodily injury, death, or for damage or injury to or destruction of property' (including the loss of use thereof) for any one occurrence. Tenant's policies shall name Landlord, its

agents, servants and employees as additional insureds. At the option of the Landlord, copies of certificates of insurance coverage shall be held by Landlord.

11. Holding Over

If the Tenant retains possession of the Premises or any part thereof for a period of one (1) month after the termination of the term, the Tenant shall pay the Landlord Rent at triple the monthly rate specified in Section 2 and Section 3. If Tenant retains possession beyond that one (1) month period, tenancy shall continue at sufferance on a month-to-month basis at double the monthly rent specified in Section 2 and Section 3 for the time the Tenant thus remains in possession and, in addition thereto, shall pay the Landlord for all damages consequential as well as direct, sustained by reason of the Tenant's retention of possession. If the Tenant remains in possession of the Premises, or any part thereof, for a period greater than one (1) month after the expiration of the term, such holding over shall, at the election of the Landlord expressed in a written notice to the Tenant and not otherwise, constitute a renewal of this lease for one year. The provisions of this Section do not exclude the Landlord's rights of re-entry or any other right hereunder.

12. Assignment and Subletting

The Tenant shall not, without the Landlord's prior written consent which shall not be unreasonably withheld, (a) assign, convey, mortgage, pledge, encumber or otherwise transfer (whether voluntarily or otherwise) this Lease or any interest under it; (b) allow any transfer thereof or any lien upon the Tenant's interest by operation of law; (c) sublet the Premises or any part thereof, or (J) permit the use or occupancy of the Premises or any part thereof by any one other than the Tenant.

Tenant agrees to pay to Landlord, on demand, reasonable costs incurred by Landlord in connection with any request by Tenant for Landlord to consent to any assignment or subletting by Tenant.

If this lease be assigned or if the Premises or any part thereof be sublet or occupied by anybody other than Tenant, Landlord may, after default by Tenant, collect rent from the assignee, subtenant or occupant, and apply the net amount collected to the Rent herein reserved, but no such assignment, subletting, occupancy or collection shall be deemed a waiver of any of Tenants covenants contained in this Lease or the acceptance of the assignee, subtenant or occupant as Tenant, or a release of Tenant from further performance by Tenant of covenants on the part of Tenant herein contained.

Notwithstanding anything contained herein to the contrary, and in addition to the Landlord's right to consent to such assignment, in toe event that any time during the term of this Lease, Tenant desires to assign this Lease, Tenant should notify the Landlord in writing (hereinafter referred to as "Assignment Notice") of the terms of the proposed assignment and shall give the Landlord the

option to accept an assignment from the Tenant of this Lease on the same terms as this Lease or, at Landlord's option, to terminate this lease. The option to accept such assignment or to terminate this Lease shall be exercisable by Landlord in writing for a period of fifteen (15) days after the receipt of the Assignment Notice.

Notwithstanding anything contained herein to the contrary, and in addition to Landlord's right to consent to such sublet, in the event that at any time during the term of this lease Tenant desires to sublet all or part of the Premises, Tenant shall notify the Landlord in writing (hereinafter referred to as "Sublet Notice") of the terms of the proposed subletting and the area so proposed to be sublet and shall give the Landlord the option to sublet from Tenant such space (hereinafter referred to as "sublet space") at the same rent and additional rent as Tenant is required to pay to Landlord under this lease for the same space or, at Landlord's option, to terminate the lease with respect to the sublet space. If the sublet space does not constitute the entire Premises and Landlord exercises its option to terminate this lease with respect to the sublet space, then as to that portion of the Premises which is not part of the sublet space, this lease shall remain in full force and effect except that the Rent shall be reduced by a fraction, the numerator of which shall be the rentable square feet of the sublet space and the denominator of which shall be the rentable square feet of the Premises. The option to sublet, or to terminate the lease, shall be exercisable by Landlord in writing for a period of fifteen (15) days after receipt of the Sublet Notice.

In the event Landlord exercises its option to accept such assignment or to sublease the sublet space, the terms of the assignment or the term of the subletting from the Tenant to the Landlord for the sublet space shall be as set forth in the Assignment Notice or the Sublet Notice, as the case may be, and shall be on such other terms and conditions as are contained in this lease to the extent applicable.

Tenant shall be entitled to receive Gross Proceeds (as hereinafter defined) in an amount (the "Priority Tenant Share") equal to the sum of \$1,000. After Tenant has received the Priority Tenant Share, Tenant shall pay Landlord, as additional rent, as and when received, fifty percent (50%) of Gross Proceeds.

"Gross Proceeds" means an amount equal to the excess, if any, of (x) :he amounts which are payable by the sublessee or an assignee under or in connection with any sublease or assignment of the Premises (less, in the case of each payment of fixed rent or basic rent, an amount equal to five (5%) percent of each such payment) over (y) the corresponding amounts, if any, payable under this Lease (or if there be no such corresponding amount, in excess of zero). Amounts which are payable by the sublessee or an assignee under or in connection with any sublease or assignment of the Premises shall be deemed (x) not to be Gross Proceeds until such payment is received by Tenant and (y) not to include any payment

by the sublessee or an assignee under such sublease or operative document(s) with respect to such assignment which is identified as a payment for tenant improvements which were constructed by Tenant, or at Tenant's direction, for such sublessee or assignee, which shall not exceed in the aggregate the then unamortized cost to Tenant of such tenant improvements.

In the event Landlord does not exercise either of its options specified above and Tenant completes an assignment or a sublease with a third party, the assignee or subtenant shall be subject to and comply with the requirements of this Section.

13. Condition of Premises

Tenant's taking possession of the Premises shall be conclusive evidence as against the Tenant that the Premises were in good order and satisfactory condition when the Tenant took possession. No promises of the Landlord to alter, remodel, repair or improve the Premises or the Building and no representation respecting the condition of the Premises or the Building have been made by Landlord to Tenant, other than as may be contained herein or in a separate Work Letter Agreement signed by Landlord and Tenant. At the termination of this Lease, the Tenant shall return the Premises broom-clean and in as good condition as when the Tenant took possession, ordinary wear and loss by fire or other casualty excepted, failing which the Landlord may restore the Premises to such condition and the Tenant shall pay the cost thereof on demand.

14. Use Of Premises

The Tenant agrees to comply with the following rules and regulations and with such reasonable modifications thereof and additions thereto as the Landlord may hereafter from time to time make for the Building. The Landlord shall not be responsible for the non-observance by any other tenant of any of said rules and regulations.

(a) The Tenant shall not exhibit, sell or offer for sale on the Premises or in the Building, any article or thing except those articles or things essentially connected with the stated use of the Premises by the Tenant without the advance consent of the Landlord.

(b) The Tenant will not make or permit to be made any use of the Premises or any part thereof which would violate any of the covenants, agreements, terms, provisions and conditions of this Lease or which directly or indirectly is forbidden by public law, ordinance or governmental regulation or which may be dangerous to life, limb, or property, or which may invalidate or increase the premium cost of any policy of insurance carried on the Building or covering its operation, or which will suffer or permit the Premises or any part thereof to be used in any manner or anything to be brought into or kept therein which, in the judgment of Landlord, shall in any way impair or tend to impair the character, reputation or appearance of the Property as a high quality office building, or which will impair or interfere with or tend to impair or interfere with any of the services performed by Landlord for

the Property.

(c) The Tenant shall not display, inscribe, print, paint maintain or affix on any place in or about the Building any sign, notice, legend, direction, figure or advertisement, except on the doors of the Premises and on the Directory Board, which shall be maintained by Landlord,, and then only such names(s) and matter, and in such color, size, style, place and materials, as shall first have been approved by the Landlord. The listing of any name other than that of Tenant, whether on the doors of the Premises, on the Building directory, or otherwise, shall not operate to vest

any right or interest in this Lease or in the Premises or be deemed to be the written consent of Landlord mentioned in Section 12, it being expressly understood that any such listing is a privilege extended by Landlord revocable at will by written notice to Tenant.

(d) The Tenant shall not advertise the business, profession or activities of the Tenant conducted in the Building in any manner which violates the letter or spirit of any code of ethics adopted by any recognized association or organization pertaining to such business, profession or activities, and shall not use the name of the Building for any purposes other than that of the business address of the Tenant and shall never use any picture or likeness of the Building in any circulars, notices, advertisements or correspondence without the Landlord's consent.

(e) No additional locks or similar devices shall be attached to any door or window without Landlord's prior written consent which shall not be unreasonably withheld, so long as keys or access cards to such locks or devices are provided to Landlord. No keys for any doors other than those provided by the Landlord shall be made. If more than five (5) keys for one lock are desired, the Landlord will provide the same upon payment by the Tenant. All keys must be returned to the Landlord at the expiration or termination of this Lease.

(f) The Tenant shall not make any alterations, improvements or additions to the Premises including, but not limited to, wall coverings, floor coverings and special lighting installations, without the Landlord's advance written consent in each and every instance, unless such alterations, improvements or additions are non-structural and the cost of such is less than, or equal to, one thousand dollars (\$1,000.00). In the event Tenant desires to make alterations, improvements or additions, Tenant shall first submit to Landlord plans and specifications therefor and obtain Landlord's written approval thereof prior to commencing any such work. All alterations, improvements or additions, whether temporary or permanent in character, made by Landlord or Tenant in or upon the Premises shall become Landlord's property and shall remain upon the Premises at the termination of this Lease without compensation to Tenant (excepting only Tenant's movable office furniture, trade fixtures, office and professional equipment) provided, however, that Landlord shall have the right to require Tenant to remove such alterations, improvements or additions, at Tenant's cost, upon the termination of this Lease and to repair any damage to the Premises resulting therefrom.

(g) All persons entering or leaving the Building after hours on Monday through Friday, or at any time on Saturdays, Sundays or holidays, may be required to do so under such regulations as the Landlord may impose. The Landlord may exclude or expel any peddler.

(h) The Tenant shall not overload any floor. The Landlord may direct the time and manner of delivery, routing and removal, and the location, of safes and other heavy articles.

(i) Unless the Landlord gives advance written consent, the Tenant shall not install or operate any steam or internal

combustion engine, boiler, machinery, refrigerating or heating device or air-conditioning apparatus in or about the Premises, or carry on any mechanical business therein, or use the Premises for housing accommodations or lodging or sleeping purposes, or use any illumination other than electric light, or use or permit to be brought into the Building any inflammable fluids such as gasoline, kerosene, naphtha, and benzine, or any explosives, radioactive materials or other articles deemed extra hazardous to life, limb or property except in a manner which would not violate any ordinance or regulation of the City. The Tenant shall not use the Premises for any illegal or immoral purpose. Tenant shall be permitted to install a refrigerator, microwave oven, and coffee machine for its own use.

(j) The Tenant shall cooperate fully with the Landlord to assure the effective operation of the Building's air-conditioning system including the closing of venetian blinds and drapes, and if windows are operable to keep them closed when the air-conditioning system is in use.

(k) The Tenant shall not contract for any work or service which might involve the employment of labor incompatible with the Building employees or employees of contractors doing work or performing services by or on behalf of the Landlord.

(l) The sidewalks, halls, passages, exits, entrances, elevators and stairways shall not be obstructed by the Tenant or used for any purpose other than for ingress to and egress from its Premises. The halls, passages, exits, entrances, elevators, stairways and roof are not for the use of the general public and the Landlord shall in all cases retain the right to control and prevent access thereto by all persons whose presence, in the judgment of the Landlord, shall be prejudicial to the safety, character, reputation and interests of the Building and its tenants, provided that nothing herein contained shall be construed to prevent such access to persons with whom the Tenant normally deals in the ordinary course of Tenant's business unless such persons are engaged in illegal activities. No Tenant and no employees or invitees of any Tenant shall go upon the roof or mechanical floors of the Building.

(m) Tenant shall not use, keep or permit to be used or kept any foul or noxious gas or substance in the Premises, or permit or suffer the Premises to be occupied or used in a manner offensive or objectionable to the Landlord or other occupants of the Building by reason of noise, odors and/or vibrations, or interfere in any way with other tenants or those having business therein, nor shall any animals or birds be brought in or kept in or about the Premises or the Building.

(n) Tenant shall see that the doors, and windows, if operable, of the Premises are closed and securely locked before leaving the Building and must observe strict care and caution that all water faucets or water apparatus are entirely shut off before Tenant or Tenant's employees leave the Building, and that all electricity shall likewise be carefully shut off so as to prevent waste or damage, and for any default or carelessness Tenant shall make good all injuries or losses sustained by other tenants or occupants of the Building or Landlord.

In addition to all other liabilities for breach of any covenant of this Section, the Tenant shall pay to the Landlord an amount equal to any increase in insurance premiums payable by the Landlord or any other tenant in the Building, caused by such breach.

15. Repairs

Tenant shall give to Landlord prompt written notice of any damage to, or defective condition in any part or appurtenance of the Building's plumbing, electrical, heating, air-conditioning or other systems serving, located in, or passing through the Premises. Subject to the provisions of Section 13, the Tenant shall, at the Tenant's own expense, keep the Premises in good order, condition and repair during the term, except that the Landlord, at the Landlord's expense (unless caused by the fault or negligence of the Tenant, its contractors, agents, or employees) shall keep in repair the elevators, electrical lines, plumbing fixtures located in the Building (except those installed by Tenant with Landlord's approval) heating and air-conditioning equipment, outside walls, including windows, and roof. The Tenant at the Tenant's expense, shall comply with all laws and ordinances, and all rules and regulations of all governmental authorities, applicable to the Premises or to the Tenant's use thereof, except that the Tenant shall not hereby be under any obligation to comply with any law, ordinance, rule or regulation requiring any structural alteration of or in connection with the Premises, unless such alteration is required by reason of a condition which has been created by, or at the instance of, the Tenant, or is required by reason of a breach of any of the Tenant's covenants and agreements hereunder. In addition Tenant shall be obligated to comply with the rules and regulations of all insurance bodies in the event all or a portion of the Premises is used for any purpose other than office space. Landlord shall not be required to repair any injury or damage by fire or other cause, or to make any repairs or replacements of any panels, decoration, office fixtures, railing, ceiling, floor covering, partitions, or any other property installed in the Premises by, or at the cost of, the Tenant.

16. Untenantability

If the Premises are made untenable in whole or in part by fire or other casualty the Rent, until repairs shall be made or this Lease terminated as hereinafter provided, shall be apportioned on a per diem basis according to the part of the Premises which is usable by the Tenant, if, but only if, such fire or other casualty be not caused by the fault or negligence of the Tenant, its contractors, agents, or employees. If such damage be so extensive that the Premises cannot be restored to "Building Standard" by the Landlord within a period of three (3) months, either party shall have the right to cancel this Lease by notice to the other given at any time with thirty (30) days after the date of such damage; except that if such fire or casualty resulted from the Tenant's fault or negligence, the Tenant shall have no right to cancel. If a portion of the Building other than the Premises shall be so damaged that in the opinion of the Landlord the Building should not be restored or should be restored in such a way as to alter the Premises materially, the Landlord may cancel

this Lease by notice to the Tenant given at any time within thirty

(30) days after the date of such damage. In the event of giving effective notice pursuant to this Section, this Lease and the term and the estate hereby granted shall expire on the date fifteen (15) days after the giving of such notice as fully and completely as if such date were the date hereinbefore set for the expiration of the term of this Lease. If this Lease is not so terminated, the Landlord will promptly repair the damage at the Landlord's expense.

17. Eminent Domain

(a) In the event that title to the whole or any substantial part of the Premises shall be lawfully condemned or taken in any manner for any public or quasi-public use, this lease and the term and estate hereby granted shall forthwith cease and terminate as of the date of vesting of title and the Landlord shall be entitled to receive the entire award, the Tenant hereby assigning to the Landlord the Tenant's interest therein, if any.

(b) In the event that title to a part of the Building other than the Premises shall be so condemned or taken and if in the opinion of the Landlord, the Building should not be restored or should be restored in such a way as to alter the Premises materially, the Landlord may terminate this lease and the term and estate hereby granted by notifying the Tenant of such termination within sixty (60) days following the date of vesting title, and this lease and the term and estate hereby granted shall expire on the date specified in the notice of termination, not less than sixty (60) days after the giving of such notice, as fully and completely as if such date were the date hereinbefore set for the expiration of the term of this lease, and the Rent hereunder shall be apportioned as of such date.

18. Landlord's Remedies

All rights and remedies of the Landlord herein enumerated shall be cumulative, and none shall exclude any other right or remedy allowed by law. In addition to the other remedies in this lease provided, the Landlord shall be entitled to the restraint by injunction of the violation or attempted violation of any of the covenants, agreements or conditions of this Lease.

(a) If the Tenant shall (i) apply for or consent to the appointment of a receiver, trustee or liquidator of the Tenant or of all or a substantial part of its assets, (ii) file a voluntary petition in bankruptcy or admit in writing its inability to pay its debts as they come due, (iii) make a general assignment for the benefit of creditors, (iv) file a petition or an answer seeking reorganization or arrangement with creditors or to take advantage of any insolvency law, or (v) file an answer admitting the material allegations of a petition filed against the Tenant in any bankruptcy, reorganization or insolvency proceeding, or not have such petition dismissed within ninety (90) days or if an order, judgment or decree shall be entered by any court of competent jurisdiction adjudicating the Tenant a bankrupt or insolvent or approving a petition seeking reorganization of the Tenant or appointing a receiver, trustee or liquidator of the Tenant or of all or a substantial part of its assets, then in any of such events, the Landlord may give to the Tenant a notice of

intention to end the term of this Lease specifying a day not earlier than thirty (30) days thereafter, and upon the giving of such notice the term of this Lease and all right, title and interest of the Tenant hereunder shall expire as fully and completely on the day so specified as if that day were the date herein specifically fixed for the expiration of the term.

(b) If the Tenant defaults in the payment of minimum annual rent and such default continues for ten (10) days after notice, or defaults in the prompt and full performance of any other provision of this Lease and such default continues for fifteen (15) days after notice, or if the leasehold interest of the Tenant be levied upon under execution or be attached by process of law, or if the Tenant abandons the Premises, then and in any such event the Landlord may, at its election, either terminate the Lease and the Tenant's right to possession of the Premises or, without terminating this Lease, endeavor to relet the Premises. Notwithstanding the above, Landlord shall only be obligated to give Tenant notice of a default in rent payment two (2) times in each lease year. Thereafter, Tenant shall be immediately in default if rent payments are not made on the date due. Nothing herein shall be construed so as to relieve the Tenant of any obligation, including the payment of minimum annual rent, as provided in this Lease.

(c) Upon any termination of this lease, the Tenant shall surrender possession and vacate the Premises immediately, and deliver possession thereof to the Landlord, and hereby grants to the Landlord full and free license to enter into and upon the Premises in such event with or without process of law and to repossess the Landlord of the Premises as of the Landlord's former estate and to expel or remove the Tenant and any others who may be occupying or within the Premises and to remove any and all property therefrom, using such force as may be necessary, without being deemed in any manner guilty of trespass, eviction or forcible entry or detainer, and without relinquishing the Landlord's right to rent or any other right given to the Landlord hereunder or by operation of law.

(d) If the Tenant abandons the Premises or the Landlord otherwise becomes entitled so to elect, and the Landlord elects, without terminating the lease, to endeavor to relet the Premises, the Landlord may, at the Landlord's option enter into the Premises, remove the Tenant's signs and other evidence of tenancy, and take and hold possession thereof as in Paragraph (c) of this Section provided, without such entry and possession terminating the lease or releasing the Tenant, in whole or in part, from the Tenant's obligation to pay the Rent hereunder for the full term as hereinafter provided. Upon and after entry into possession without termination of the lease, the Landlord may relet the Premises or any part thereof for the account of the Tenant to any person, firm or corporation other than the Tenant for such rent, for such time and upon such terms as the Landlord shall determine, to be reasonable. In any such case, the Landlord may make repairs, alterations and additions in or to the Premises, and redecorate the same to the extent deemed by the Landlord necessary or desirable, and the Tenant shall, upon demand, pay the cost

thereof, together with the Landlord's expenses of the reletting. If the consideration collected by the Landlord upon any such reletting for the Tenant's account is not sufficient to pay monthly the full amount of the Rent reserved in this lease, together with the cost of repairs, alterations, additions,

redecorating and the Landlord's expenses, the Tenant shall pay to the Landlord the amount of each monthly deficiency upon demand and if the consideration so collected from any such reletting is more than sufficient to pay the full amount of the Rent reserved herein, together with the costs and expenses of the Landlord, the Landlord, at the end of the stated term of this lease, shall account to the Tenant.

(e) If the Landlord elects to terminate this lease in any of the contingencies specified in this Section, it being understood that the Landlord may elect to terminate the lease after and notwithstanding its election to terminate the Tenant's right to possession as in Paragraph (b) of this Section provided, the Landlord shall forthwith upon such termination be entitled to recover as damages, and not as a penalty, an amount equal to the then present value of the minimum annual rent and additional rent provided in this lease for the residue of the stated term hereof, less the present value of the fair rental value of the Premises for the residue of the stated term.

(f) Any and all property which may be removed from the Premises by the Landlord pursuant to the authority of the lease or of law, to which the Tenant is or may be entitled, may be handled, removed or stored by the Landlord at the risk, cost and expense of the Tenant, and the Landlord shall in no event be responsible for the value, preservation or safekeeping thereof. The Tenant shall pay to the Landlord, upon demand, any and all expenses incurred in such removal and all storage charges against such property so long as the same shall be in the Landlord's possession or under the Landlord's control. Any such property of the Tenant not removed from the Premises or retaken from storage by the Tenant within thirty (30) days after the end of the term or of the Tenant's right to possession of the Premises, however terminated, shall be conclusively deemed to have been forever abandoned by the Tenant and either may be retained by Landlord as its property or may be disposed of in such manner as Landlord may see fit.

(g) The Tenant agrees that if it shall at any time fail to make any payment or perform any other act on its part to be made or performed under this lease, the Landlord may, but shall not be obligated to, and after reasonable notice or demand and without waiving, or releasing the Tenant from, any obligation under this lease, make such payment or perform such other act to the extent the Landlord may deem desirable, and in connection therewith to pay expenses and employ counsel. The Tenant agrees to pay a reasonable attorney's fee if legal action is required to enforce performance by Tenant of any condition, obligation or requirement hereunder. All sums so paid by the Landlord and all expenses in connection therewith, together with interest thereon at the rate of 18% per annum from the date of payment, shall be deemed additional rent hereunder and payable at the time of any installment of Rent thereafter becoming due and the Landlord shall have the same rights and remedies for the non-payment thereof, or of any other additional rent, as in the case of default in the payment of rent.

(h) Interest on Past Due Payments and Advances. Tenant

covenants and agrees to pay to Landlord interest on demand at the rate of 2% above the "Prime Rate," as hereinafter defined, on the amount of any Monthly Rent or Monthly Deposit not paid when due,

from the date due and payable and on the amount of any payment made by Landlord required to have been made by Tenant under this Lease and on the amount of any costs and expenses, including reasonable attorney's fees, paid by Landlord in connection with the taking of any action to cure any Default by tenant from the date of making any such payment or the advancement of such costs and expenses by Landlord. "Prime Rate" shall mean that interest rate set by Wachovia Bank of North Carolina, N.A., from time to time as its interest rate basis for commercial borrowings, but never in excess of the maximum amount of finance charge permissible under applicable law. In the event that the Bank discontinues the use of a Prime Rate, the Prime Rate being charged by any other national banking association located in North Carolina, as selected by Landlord in its sole discretion, shall be used for computing the interest rate under this Section.

19. Notice and Consents

All notices, demands, requests, consents or approvals which may or are required to be given by either party to the other shall be in writing and shall be deemed given when sent by United States Certified or Registered Mail, postage prepaid, (a) if for the Tenant, addressed to Facilities Manager at the Building, and to Tenant at 1 Technology Way, P.O. Box 9106, Norwood, MA 02062, Attention: Chief Financial Officer or at such other place as the Tenant may from time to time designate by notice to the Landlord, or (b) if for the Landlord, addressed to the office of the Landlord in the Building with a copy to Landlord addressed to Suite 1200, 230 S. Tryon Street, Charlotte, NC 28202 or at such other places as the Landlord may from time to time designate by notice to the Tenant. All consents and approvals provided for herein must be in writing to be valid. If the term Tenant as used in this lease refers to more than one person, any notice, consent, approval, request, bill, demand or statement, given as aforesaid to any one of such persons shall be deemed to have been duly given to Tenant.

Except as specifically provided in this lease, Tenant hereby expressly waives the service of intention to terminate this lease or to re-enter the Premises and waives the service of any demand for payment of Rent or for possession and waives the service of any other notice or demand prescribed by any statute or other law.

20. Invalidity of Particular Provisions; Severability

If any clause or provision of this lease is or becomes illegal, invalid, or unenforceable because of present or future laws or any rule or regulation of any governmental body or entity, effective during its term, the intention of the parties hereto is that the remaining parts of this lease shall not be affected thereby unless such invalidity is, in the sole determination of Landlord, essential to the rights of both parties in which event Landlord has the right to terminate this lease on written notice to Tenant.

21. Waiver of Benefits

Tenant waives the benefits of all existing and future Rent Control Legislation and Statutes and similar governmental rules and regulations, whether in time of war or not, to the extent permitted by law.

22. Miscellaneous Taxes

Tenant shall pay prior to delinquency all taxes assessed against or levied upon its occupancy of the Premises, or upon the fixtures, furnishings, equipment and all other personal property of Tenant located in the Premises, if nonpayment thereof shall give rise to a lien on the Property, and when possible Tenant shall cause said fixtures, furnishings, equipment and other personal property to be assessed and billed separately from the property of Landlord. In the event any or all of Tenant's fixtures, furnishings, equipment and other personal property, or upon Tenant's occupancy of the Premises, shall be assessed and taxed with the property of Landlord, Tenant shall pay to Landlord its share of such taxes within ten (10) days after delivery to Tenant by Landlord of a statement in writing setting forth the amount of such taxes applicable to Tenant's fixtures, furnishings, equipment or personal property.

23. Sprinklers

If there now is or shall be installed in the Building a "sprinkler system," and such system or any of its appliances shall be damaged or injured or not in proper working order by reason of any act or omission of the Tenant, Tenant's agents, servants, employees, licensees or visitors, the Tenant shall forthwith restore the same to good working conditions at its own expense; and if the Board of Fire Underwriters of Fire Insurance Exchange or any bureau, department or official of the state or city government, require or recommend that any changes, modifications, alterations or additional sprinkler heads or other equipment be made or supplied solely by reason of the Tenant's business, or the location of partitions, trade fixtures, or other contents, of the Premises requested, required or installed by Tenant, or if any such changes, modifications, alterations, additional sprinkler heads or other equipment, become necessary to prevent the imposition of a penalty or charge against the full allowance for a sprinkler system in the fire insurance rate as fixed by said Exchange, or by any fire insurance company, Tenant shall, at the Tenant's expense, promptly make and supply such changes, modifications, alterations, additional sprinkler head or other equipment.

24. No Estate In Land

This contract and lease shall create the relationship of landlord and tenant between Landlord and Tenant; no estate shall pass out of Landlord; and Tenant has only a usufruct which is not subject to levy and sale.

25. Security Deposit - DELETED INTENTIONALLY

26. Substitute Premises

If the Premises contain an area of 2,000 square feet or less, Landlord shall have the right at any time during the term hereof, upon giving Tenant not less than sixty (60) days prior written notice, to provide and furnish Tenant with space elsewhere in the Building of approximately the same size as the Premises and remove

and place Tenant in such space, with Landlord to pay all reasonable costs and expenses incurred as a result of such removal of Tenant. Should Tenant refuse to permit Landlord to move Tenant to such new space at the end of said sixty (60) day period, Landlord shall have the right to cancel and terminate this lease effective ninety (90) days from the date of original notification by Landlord. If Landlord moves Tenant to such new space, this lease and each and all of its terms, covenants and conditions shall remain in full force and effect and be deemed applicable to such new space, and such new space shall thereafter be deemed to be the Premises as though Landlord and Tenant had entered upon an express written amendment of this lease with respect thereto.

27. Brokerage

Tenant represents and warrants that it has dealt with no broker, agent or other person in connection with this transaction and that no broker, agent or other person brought about this transaction, other than Binswanger Southern, (N.C.) Inc., the authorized Agent of the Landlord, and Tenant agrees to indemnify and hold Landlord harmless from and against any claims by any other broker, agent or other person claiming a commission or other form of compensation by virtue of having dealt with Tenant with regard to this leasing transaction. The provisions of this Section shall survive the termination of this lease.

28. Special Stipulations

(a) No receipt of money by the Landlord from the Tenant after the termination of this lease or after the service of any notice or after the commencement of any suit, or after final judgment for possession of the Premises shall reinstate, continue or extend the term of this lease or affect any such notice, demand or suit or imply consent for any action for which Landlord's consent is required.

(b) No waiver of any default of the Tenant hereunder shall be implied from any omission by the Landlord to take any action on account of such default if such default persists or be repeated, and no express waiver shall affect any default other than the default specified in the express waiver and that only for the time and to the extent therein stated.

(c) The term "Landlord" as used in this lease, so far as covenants or agreements on the part of the Landlord are concerned, shall be limited to mean and include only the owner or owners of the Landlord's interest in this lease at the time in question, and in the event of any transfer or transfers of such interest the Landlord herein named (and in case of any subsequent transfer, the then transferor) shall be automatically freed and relieved from and after the date of such transfer of all personal liability as respects the performance of any covenants or agreements on the part of the Landlord contained in this lease thereafter to be performed.

(d) It is understood that the Landlord may occupy portions of the Building in the conduct of the Landlord's business. In such event, all references herein to other tenants of the Building shall be deemed to include the Landlord as an occupant.

(e) The term "City" as used in this lease shall be understood

to mean the City in which the Property is located.

(f) All of the covenants of the Tenant hereunder shall be deemed and construed to be "conditions" as well as "covenants" as though the words specifically expressing or importing covenants and conditions were used in each separate instance.

(g) This Lease shall not be recorded by either party without the consent of the other.

(h) Neither party has made any representations or promise, except as contained herein, or in some further writing signed by the party making such representation or promise.

(i) In the absence of fraud, no person, firm or corporation, or the heirs, legal representatives, successors and assigns, respectively, thereof, executing this lease as agent, trustee or in any other representative capacity shall ever be deemed or held individually liable hereunder for any reason or cause whatsoever.

(j) In event of variation or discrepancy, the Landlord's original copy of the lease shall control.

(k) Each provision hereof shall extend to and shall, as the case may require, bind and inure to the benefit of the Landlord and the Tenant and their respective heirs, legal representatives and successors, and assigns in the event this lease has been assigned with the express, written consent of the Landlord.

(l) If because of any act or omission of Tenant, its employees, agents, contractors, or subcontractors, any mechanic's lien or other lien, charge or order for the payment of money shall be filed against Landlord, or against all or any portion of the Premises, or the Building of which the Premises are a part, Tenant shall, at its own cost and expenses, cause the same to be discharged of record, within thirty (30) days after the filing thereof, and Tenant shall indemnify and save harmless Landlord against and from all costs, liabilities, suits, penalties, claims and demands, including reasonable attorneys' fees resulting therefrom.

(m) It is understood and agreed that this Lease shall not be binding until and unless all parties have signed it.

(n) Landlord and Tenant, by execution of this Agreement, represent and warrant to each other that they are duly organized and existing under applicable laws as set forth hereinabove and are in good standing under such laws; and, that each has the requisite legal authority to own and operate its properties and assets, to carry on its business as presently conducted, and to execute this Lease.

(o) The provisions of this indenture shall be construed in accordance with and governed by the laws of the state of North Carolina. References to this Lease or this indenture shall refer to this document. Reference to Landlord or Tenant, whenever consistent with the context of this Lease shall include the plural or singular number, masculine, feminine or neuter gender. In the absence of specific provisions to the contrary, the party upon whom an obligation is imposed by this Lease shall perform the

obligation at its own expense. Paragraph headings relating to the contents of particular paragraphs are inserted only for the purpose of convenience and are not to be construed as parts of the particular paragraphs to which they refer. All of the provisions of this Lease are to be construed as covenants and agreements as though the words importing such covenants and agreements were used in each paragraph.

29. Subordination

(a) This Lease is subject and subordinate to each and every trust indenture, deed of trust and mortgage (collectively the "Mortgages") which now affects the Property, and the Building, and to all renewals, extensions, supplements, amendments, modifications, consolidations, and replacements thereof or thereto, substitutions therefor, and advances made thereunder. Landlord shall employ its best efforts to obtain from the holder or holders of the Mortgages a Non-Disturbance Agreement (as defined below). Tenant shall subordinate this Lease to the lien of any subsequent mortgagee or lien holder and so long as Tenant is not in default of this Lease, such subordination shall be conditioned upon the delivery to Tenant of an agreement by mortgagee or lienholder that it shall not disturb Tenant's possessory rights in the Premises (a "Non-Disturbance Agreement").

(b) If at any time prior to the expiration of the Term, any Superior Lease shall terminate or be terminated for any reason, Tenant agrees, at the election and upon demand of any owner of the Property or the Building, or the lessor under any such Superior Lease, or of any mortgagee in possession of the Property or the Building, to attorn, from time to time, to any such owner, lessor or mortgagee, upon the then executory terms and conditions of this Lease, for the remainder of the term originally demised in this Lease, provided that such owner, lessor or mortgagee, as the case may be or receiver caused to be appointed by any of the foregoing, shall not then be entitled to possession of the Premises. The provisions of this subsection (b) shall enure to the benefit of any such owner, lessor or mortgagee, shall apply notwithstanding that, as a matter of law, this Lease may terminate upon the termination of any such Superior Lease, and shall be self-operative upon any such demand, and no further instrument shall be required to give effect to said provisions. Tenant, however, upon demand of any such owner, lessor or mortgagee, agrees to execute, from time to time, instruments in confirmation of the foregoing provisions of this subsection (b), satisfactory to any such owner, lessor or mortgagee, acknowledging such attornment and setting forth the terms and conditions of its tenancy. Nothing contained in this subsection (b) shall be construed to impair any right otherwise exercisable by any such owner, lessor or mortgagee.

30. Option to Renew

Provided Tenant is not then in default under any of the terms, conditions and covenants of this Lease, Tenant shall have the right and privilege, at its election, to renew this Lease for one (1) further term of three (3) years (the "Renewal Period") by giving Landlord written notice of its election to do so (the "Election"), at any time on or before one hundred eighty (180)

days prior to the end of the then existing Term. Such renewals shall be on the same terms and conditions (except for the Election) as herein provided for the Primary Term, except that the minimum annual rent during such Renewal Periods shall be at the prevailing market rate.

31. Right of First Offer.

Provided Tenant is not in default and has performed all of its obligations hereunder, Tenant shall have the first opportunity to lease approximately 18,157 square feet of space known as Suite 240 (the "Space") which Space is outlined on the attached Exhibit "E". Upon notification in writing by Landlord of the availability of the Space, Tenant shall have ten (10) days in which to elect in writing to Lease the Space. Should Tenant elect to exercise this right of first offer, the annual rental rate shall be at the prevailing market rate.

Exhibits "A" through "E", are attached hereto and become part of this lease.

IN WITNESS WHEREOF, Landlord and Tenant have respectively signed and sealed this lease as of the day and year first above written.

LANDLORD:
ONE TRIAD CENTER ASSOCIATES,

By: /s/ Illegible

Partner

TENANT:
ANALOG DEVICES, INC.

By: /s/ William A. Martin

Treasurer

CORPORATE SEAL

ATTEST: /s/ WAWise

Asst. Secretary

FIRST AMENDMENT TO OFFICE LEASE

THIS FIRST AMENDMENT TO OFFICE LEASE is made this 9th day of March, 2000 by and between LIBERTY PROPERTY LIMITED PARTNERSHIP, a Pennsylvania limited partnership ("Landlord") and ANALOG DEVICES, INC., a Massachusetts corporation having its principal place of business at One Triad Center, Greensboro, North Carolina ("Tenant").

BACKGROUND

A. One Triad Center Associates, a North Carolina general partnership which was Landlord's predecessor, and Tenant entered into an Office Lease dated November 14, 1997 (the "Lease"), covering premises in the building located at 7736 McCloud Road in Greensboro, North Carolina known as "One Triad Center" (the "Building"), which premises are more fully described in the Lease.

B. Tenant desires (i) to increase the amount of space leased and (ii) to extend the term of the Lease. Subject to the provisions of this First Amendment, Landlord has agreed to such increase in the space leased and to such extension of the term. Accordingly, Landlord and Tenant desire to amend the Lease.

NOW THEREFORE, the parties hereto, in consideration of the mutual promises and covenants contained herein and in the Lease, and intending to be legally bound hereby agree that, effective on the date hereof set forth above (the "Effective Date"), the Lease is amended as follows:

1. First Additional Space: Effective on April 1, 2000, the Premises as defined in the Lease shall be expanded and increased to include the approximately 6,000 square feet located on the second floor of the Building as is outlined on the floor plan of such second floor attached hereto as Exhibit A-1. Such additional space on the second floor of the Building shall be referred to herein as the "First Additional Space". From and after April 1, 2000 until July 31, 2000, the Premises leased under the Lease shall consist of the approximately 23,734 square feet of space on the first floor of the Building originally leased pursuant to the Lease (the "Original Premises") plus the approximately 6,000 square feet of space on the second floor of the Building constituting the First Additional Space.

2. Second Additional Space: Effective on August 1, 2000, the Premises as defined in the Lease shall be expanded and increased to include the approximately 12,157 square feet located on the second floor of the Building as is outlined on the floor plan of such second floor attached hereto as Exhibit A-2. Such additional space on the second floor of the Building shall be referred to herein as the "Second Additional Space." From and after August 1, 2000 until the expiration of the Term, the Premises leased under the Lease shall consist of the approximately 23,734 square feet of space, on the first floor of the Building constituting the Original Premises, the approximately 6,000 square feet of space on the second floor of the Building constituting the First Additional Space, and the approximately 12,157 square feet of space on the second floor of the Building constituting the Second Additional Space.

3. Extension of Term: The term and duration of the Lease (for all of the Premises including without limitation the Original Premises, the First Additional Space and the Second Additional Space) shall extend to and including December 31, 2002.

4. Increases in Minimum Annual Rent: (a) Effective with the monthly installment of annual rent due on April 1, 2000, and continuing to and including the monthly installment of minimum annual rent due on June 1, 2000, the amount of each of the monthly installments of minimum annual rent due from Tenant to Landlord shall be increased to Forty Thousand Eight Hundred Nine and 92/100 Dollars (\$40,809.92).

(b) Effective on July 1, 2000 and on August 1, 2000 and again on July 1, 2001, and July 1, 2002, the minimum annual rents due from Tenant to Landlord shall be increased so that the minimum annual rents due under the Lease and the monthly installments thereof shall be as follows:

Time Period	Minimum Annual Rent	Monthly Installment Amount
07/01/00 through 07/31/00	\$504,288.64	\$42,024.05
08/01/00 through 06/30/01	\$710,471.36	\$59,205.95
07/01/01 through 06/30/02	\$731,835.77	\$60,986.31
07/01/02 through 12/31/02	\$753,619.09	\$62,801.56

(Inasmuch as Landlord and Tenant have agreed to the foregoing increases in the minimum annual rents due under the Lease, the provisions of Section 2(b) of the Lease are hereby deleted.)

(c) The monthly installments of minimum annual rent due pursuant to this Section 4 shall be in addition to the additional rental payments due pursuant to Section 3 of the Lease and Section 5 of this Amendment with respect to Tenant's Share of Operating Expenses.

5. Estimated Additional Rent With Respect to Tenant's Share of Operating Expenses and Taxes:

(a) Landlord shall provide Tenant with a reconciliation of the estimated additional rental payments made by Tenant during the calendar year 2000, if any, with the actual amount of Tenant's Share of Operating Expenses and Taxes for the calendar year 2000. For the purposes of determining the actual amount of Tenant's Share of Operating Expenses and Taxes for the calendar year 2000, Tenant's Proportionate Share of Operating Expenses and Taxes shall be: (i) 33.28% for the period January 1, 2000 through March 31, 2000; (ii) 41.69% for the period April 1, 2000 through July 31, 2000; and (iii) 58.74% for the period August 1, 2000 through December 31, 2000.

(b) For calendar years 2001 and beyond occurring during the term of the Lease as extended hereby, Tenant shall pay to Landlord as additional rent due with respect to Tenant's Proportionate Share of Operating Expenses and Taxes the sums due pursuant to Section 3 of the Lease using 58.74% as Tenant's Proportionate Share of Operating Expenses and Taxes.

For the purposes of computing the estimated monthly installments of additional rent due for the calendar year 2001 from Tenant pursuant to Section 3 of the Lease, Landlord may assess. Tenant an amount equal to 58.74% of the excess of the actual Operating Expenses and Taxes for the entire Building for the calendar year 2000 above the Base Year (1998) Operating Expenses and Taxes for the entire Building.

6. Refurbishment of First Additional Space & Second Additional Space;
Tenant Allowance: Tenant acknowledges and agrees that, except for the payment to Tenant of the Tenant Allowance as provided for in this Section 6, Landlord is under no duty to make repairs, alterations, improvements, refurbishments or decorations to the First Additional Space or to the Second Additional Space and that Tenant accepts the First Additional Space and the Second Additional Space in their present "as is" condition. Landlord acknowledges and agrees that Tenant desires to make certain non-structural alterations, refurbishments, and improvements to the First Additional Space and the Second Additional Space. Accordingly, Landlord and Tenant hereby agree as follows with respect to the alterations, refurbishments and improvements to be made by Tenant to the First Additional Space and the Second Additional Space:

(a) Promptly following the execution of this First Amendment, Tenant shall prepare and submit to Landlord for Landlord's approval which will not be unreasonably withheld Tenant's plans and specifications detailing and showing the alterations, refurbishments and improvements Tenant desires to make to the First Additional Space and the Second Additional Space. Tenant shall not make any alterations, refurbishments, or other improvements to the First Additional Space or the Second Additional Space unless and until Tenant has obtained Landlord's approval of the plans and specifications for such alterations, refurbishments and other improvements. Landlord shall not be required to approve any alterations, refurbishments or other improvements which would, in Landlord's judgment, involve a structural change in the Building, adversely impact any utility lines, communications lines, equipment or facilities in the Building serving any tenant other than Tenant, or reduce the value of the Building or of the Premises. The alterations, refurbishments, or other improvements to be made by Tenant to the First Additional Space and the second Additional Space pursuant to plans and specifications approved by Landlord shall be referred to herein as the "Approved Alterations".

(b) From and after the Effective Date of this Amendment until the Premises are increased to include the First Additional Space and the Second Additional Space as provided for herein, Landlord shall permit Tenant and Tenant's approved contractors and agents reasonable access to the First Additional Space and the Second Additional Space at such times as specified by Landlord for the purposes of planning and completing the Approved Alterations. Tenant's access to First Additional Space and to the Second Additional Space pursuant to this provision shall be at Tenant's own risk, expense and responsibility and shall be subject to such rules, restrictions and regulations governing such access as Landlord may reasonably impose.

(c) at least ten (10) days prior to commencement of the Approved Alterations work, Tenant shall deliver to Landlord a list of all contractors with whom Tenant has contracted or intends to contract for the accomplishment of the Approved Alterations together with a certificate of insurance for each of Tenant's contractors evidencing adequate insurance coverage and naming Landlord and Landlord's agent as additional insureds. All contractors engaged by

Tenant to perform the Approved Alterations are subject to Landlord's prior approval which shall not be unreasonably withheld.

(d) Landlord and its Agent shall have the right to conduct various walk-through inspections of the First Additional Space and of the Second Additional Space from time to time to determine the status of the Approved Alterations.

(e) Any warranties from Tenant's contractor(s) with respect to the Approved Alterations shall be for the benefit of Landlord as well as Tenant and Tenant shall deliver such warranties to Landlord upon receipt.

(f) All construction work comprising the Approved Alterations shall be done in a good and workmanlike manner, shall comply at the time of completion with all laws, ordinances, rules, regulations, and legal requirements applicable thereto, and shall be accomplished promptly and in an expeditious manner. Tenant shall be responsible for applying for and obtaining any and all governmental permits and authorizations as may be necessary to accomplish the Approved Alterations and Tenant shall accomplish the Approved Alterations in a manner so as not to disturb or disrupt any other tenant or occupant of the Building. Tenant shall deliver to Landlord upon Landlord's request copies of all permits and licenses required to be issued by any governmental authority in connection with Tenant's construction of the Approved Alterations as well as certificates of occupancy or compliance upon the completion thereof.

(g) Tenant shall pay promptly any contractors and materialmen who supply labor, work or materials to Tenant with respect to the Approved Alterations and shall take all steps permitted by law in order to avoid the imposition of any mechanic's lien upon all or any portion of the Building or upon the land upon which it is located. Should any such lien or notice of lien be filed for work performed by Tenant, Tenant shall bond against or discharge the same within five (5) days after Tenant has notice that the lien or claim is filed regardless of the validity of such lien or claim. Nothing contained herein is intended to authorize Tenant to do or cause any work to be done or materials supplied for the account of the Landlord, all of the same to be sole for Tenant's account and at Tenant's risk and expense. Except for the Tenant Allowance to be paid by Landlord to Tenant as provided below, Tenant shall pay all costs and expenses incurred by Tenant in completing and accomplishing the Approved Alterations.

(h) In order to reimburse Tenant for a portion of the costs incurred by Tenant in completing the Approved Alterations, Landlord shall pay to Tenant an allowance equal to the lesser of (i) \$40,000 or (ii) the actual out of pocket hard costs and expenses incurred by Tenant in completing the Approved Alterations. (Such lesser amount shall be referred to herein as the "Tenant Allowance".) Landlord shall disburse the Tenant Allowance to Tenant within forty-five (45) days following Landlord's receipt from Tenant of a written request for such disbursement provided that at the time such request is made the following conditions shall have then been met: (1) the Approved Alterations shall have been fully completed by Tenant in accordance with the plans and specifications approved by Landlord; (2) a certificate of compliance or of occupancy shall have been issued with respect to at least the First Additional Space by the appropriate governmental authority; (3) Tenant shall have occupied at least the First Additional Space and shall continue in occupancy of the Original Premises; (4) no event of default by Tenant shall

exist under the Lease; and (5) Tenant shall have paid all costs and expenses incurred in connection with the Approved Alterations so that no liens for such work may attach to the Building. Tenant shall submit to Landlord together with Tenant's request for the disbursement of the Tenant Allowance copies of paid invoices, receipts, and statements sufficient to verify the costs and expenses incurred by Tenant in completing the Approved Alterations and from which the amount of the Tenant Allowance can be determined together with such other information about such costs and expenses as Landlord may reasonably request.

7. Substitution of New Renewal Option. Section 30 of the Lease entitled "Option to Renew" is deleted in its entirety and the following is substituted in lieu thereof:

Multiple Options To Extend Term (Fixed Amount Rental Increases). Provided that Landlord has not given Tenant notice of default more than two (2) times preceding the Expiration Date, and that there then exists no event of default by Tenant under this lease nor any event that with the giving of notice and/or the passage of time would constitute a default, Tenant shall have the right and option to extend the Term for two (2) additional periods of thirty-six (36) months each, exercisable by giving Landlord prior written notice, at least ten (10) months in advance of the Expiration Date, of Tenant's election to extend the Term; it being agreed that time is of the essence and that this option is personal to Tenant and non-transferable to any assignee or sublessee. Such extension shall be under the same terms and conditions as provided in this lease except as follows:

(a) the additional period shall begin on the Expiration Date and thereafter the Expiration Date shall be deemed to be the third anniversary thereof.

(b) There shall be one additional extension option remaining after the exercise of the first extension option and no further options to extend after the exercise of the second extension option.

(c) The Minimum Annual Rent payable by Tenant shall be in the following amounts:

Lease Period	First Extension Option Minimum Annual Rent	Monthly Installment
01/01/03 through 06/30/03	\$753,619.09	\$62,801.56
07/01/03 through 06/30/04	\$776,240.23	\$64,686.69
07/01/04 through 06/30/05	\$799,699.19	\$66,641.60
07/01/05 through 12/31/05	\$823,577.06	\$68,631.42

Lease Period	Second Extension Option Minimum Annual Rent	Monthly Installment
01/01/06 through 06/30/06	\$823,577.06	\$68,631.42
07/01/06 through 06/30/07	\$848,292.75	\$70,691.06
07/01/08 through 06/30/08	\$873,846.26	\$72,820.52
07/01/08 through 12/31/08	\$900,237.59	\$75,019.80

8. Substitution of New Expansion Option. Section 31 of the Lease entitled "Right of First Refusal is deleted in its entirety and the following is substituted in lieu thereof:

Additional Contiguous Space. If and when the space which is contiguous to the Premises which is shown as "Expansion Space" on Exhibit A-2 (the "Expansion Space") first becomes available for rental during the term of this lease and provided that Landlord has not given Tenant notice of default more than two (2) times during the immediately preceding twelve (12) months, and that there then exists no event of default by Tenant under this lease nor any event that with the giving of notice and/or the passage of time would constitute a default, Tenant shall have the right: of first offer to lease all of the Expansion Space, subject to the following:

(a) Landlord shall notify Tenant when the Expansion Space first becomes available for rental by any party other than the tenant then in occupancy of the Expansion Space and Tenant shall have seven (7) days following receipt of such notice within which to notify Landlord in writing that Tenant is interested in negotiating terms for leasing such Expansion Space and to have its offer considered by Landlord prior to the leasing by Landlord of the Expansion Space to a third party. If Tenant notifies Landlord within such time period that Tenant is so interested, then Landlord and Tenant shall have 30 days following Landlord's receipt of such notice from Tenant within which to negotiate mutually satisfactory terms for the leasing of the Expansion Space by Tenant and to execute an amendment to this lease incorporating such terms or a new lease for the Expansion Space.

(b) If Tenant does not notify Landlord within such 7 days of its interest in leasing the Expansion Space or if Tenant does not execute such amendment or lease within such 30 (days, if applicable, then this right of first offer to lease the Expansion Space will lapse and be of no further force or effect and Landlord shall have the right to lease all of part of the Expansion Space to any other party at any time on any terms and conditions acceptable to Landlord.

(c) This right of first offer to lease the Expansion Space is a one-time right if and when the Expansion Space first becomes available, is personal to Tenant, and is nontransferable

9. No Brokers: Tenant represents and warrants to Landlord that Tenant has not been represented by any real estate agent or broker in connection with the negotiation or execution of this First Amendment and that no real estate agent or broker is entitled to a commission with respect to this First Amendment as the result of any agreement or action of Tenant. In the event that any real estate agent or broker claims or asserts that it is entitled to a commission with respect to this First Amendment based upon any agreement with Tenant or any action of Tenant, Tenant shall indemnify, defend and hold Landlord harmless with respect to such claim or assertion.

10. Reaffirmation of Lease: Except as expressly modified herein, the terms and conditions of the Lease shall remain unchanged and in full force and effect. All attached exhibits referred to herein are made a part of this Amendment and the Lease. Capitalized terms used herein and not otherwise defined herein shall have the meanings ascribed to them in the Lease.

IN WITNESS WHEREOF, Landlord and Tenant have executed this Amendment as of the day and year first above written.

LANDLORD:
LIBERTY PROPERTY LIMITED PARTNERSHIP

By: Liberty Property Trust, Sole
General Partner

By: /s/ Lawrence D. Gildea

Name: Lawrence D. Gildea
Title: Senior Vice President

TENANT:
ANALOG DEVICES, INC.

By: /s/ William A. Martin

Name: William A. Martin
Title: Treasurer

Attest: /s/ WA. Wise

Name: WA. Wise
Title: Corp. Counsel

SECOND AMENDMENT TO OFFICE LEASE

THIS SECOND AMENDMENT TO OFFICE LEASE is made this 25th day of March, 2002 by and between LIBERTY PROPERTY LIMITED PARTNERSHIP, a Pennsylvania limited partnership ("Landlord") and ANALOG DEVICES, INC., a Massachusetts corporation having its principal place of business at One Triad Center, Greensboro, North Carolina ("Tenant").

BACKGROUND

A. One Triad Center Associates, a North Carolina general partnership which was Landlord's predecessor, and Tenant entered into an Office Lease dated November 14, 1997 (the "Lease"), covering premises in the building located at 7736 McCloud Road in Greensboro, North Carolina known as "One Triad Center" (the "Building"), which premises are more fully described in the Lease.

B. In accordance with the First Amendment to the Lease, Tenant (i) increased the amount of space leased to a total of 41,891 rentable square feet and (ii) extended the term of the Lease through December 31, 2002. Subject to the provisions of the First Amendment, Landlord agreed to such increase in the space leased and to such extension of the term.

C. In lieu of exercising its option to extend the term of the Lease pursuant to Section 30 of the Lease, Tenant desires to extend the term of the Lease by way of this Amendment. Subject to the provisions of this Second Amendment, Landlord has agreed to such extension of the term. Accordingly, Landlord and Tenant desire to amend the Lease.

NOW THEREFORE, the parties hereto, in consideration of the mutual promises and covenants contained herein and in the Lease, and intending to be legally bound hereby agree that, effective on the date hereof set forth above (the "Effective Date"), the Lease is amended as follows:

1. Extension of Term: The term and duration of the Lease (for all of the Premises including without limitation the Original Premises, the First Additional Space and the Second Additional Space as detailed in the First Amendment for a total of 41,891 rentable square feet) shall extend to and including December 31, 2005.

2. Minimum Annual Rent: Effective on January 1, 2003 the minimum annual rents due from Tenant to Landlord shall be so that the minimum annual rents due under the Lease and the monthly installments thereof shall be as follows through December 31, 2005:

Time Period	Minimum Annual Rent	Monthly Installment Amount
01/01/03 through 12/31/04	\$736,443.78	\$61,370.32
01/01/05 through 12/31/05	\$758,537.09	\$63,211.42

The monthly installments of minimum annual rent due pursuant to this Section 2 shall be in addition to the additional rental payments due pursuant to Section 3 of the Lease and Section 5 of the First Amendment with respect to Tenant's Share of Operating Expenses.

3. Estimated Additional Rent With Respect to Tenant's Share of Operating Expenses and Taxes:

Tenant shall pay to Landlord as additional rent due with respect to Tenant's Proportionate Share of Operating Expenses and Taxes the sums due pursuant to Section 3 of the Lease using 58.74% as Tenant's Proportionate Share of Operating Expenses and Taxes.

4. Acceptance of Premises. Tenant accepts the space in its present "as is" condition.

5. Automatic Renewals. Section 30 of the Lease entitled "Option to Renew," as amended by Section. 7 of the First Amendment, is deleted in its entirety and the following is substituted in lieu thereof:

Automatic Term Renewals (Fixed Amount Rental Increases). The term of this Lease shall automatically be extended for an additional period of twenty-four (24) months terminating on December 31, 2007 (the "First Renewal Term") unless Tenant shall provide Landlord written notice, at least six (6) months in advance of, the Expiration Date, of Tenant's election not to extend the term. In addition, the term of this Lease, as extended by the First Renewal Term, shall automatically be extended for an additional period of thirty-six (36) months terminating on December 31, 2010 (the "Second Renewal Term") unless Tenant shall provide Landlord written notice, at least six (6) months in advance of the Expiration Date, as extended by the First Renewal Term, of Tenant's election not to extend the term. Notwithstanding the foregoing, Landlord may nullify Tenant's right to extend the term as herein provided by written notice to Tenant during the six (6) month period prior to the Expiration Date, as extended, in the event that Landlord has given Tenant notice of default more than two (2) times preceding the Expiration Date or there exists an event of default by Tenant under this Lease or any event that with the giving of notice and/or the passage of time would constitute a default. Landlord and Tenant agree that time is of the essence and the renewal options are personal to Tenant and nontransferable to any assignee or sublessee. The First Renewal Term and Second Renewal Term shall be under the same terms and conditions as provided in this lease except as follows:

(a) The First Renewal Term shall begin on the Expiration Date and thereafter the Expiration Date shall be deemed to be the second anniversary thereof.

(b) The Second Renewal Term shall begin on the Expiration Date, as extended by the First Renewal Term, and thereafter the Expiration Date shall be deemed to be the third anniversary thereof.

(c) There shall be no options to extend or renew the term remaining after the expiration of the Second Renewal Term.

(d) The Minimum Annual Rent payable by Tenant shall be in the following amounts:

First Renewal Term

Lease Period	Minimum Annual Rent	Monthly Installment
01/01/06 through 12/31/06	\$781,293.20	\$65,107.76
01/01/07 through 01/01/07	\$804,732.00	\$67,061.00

Second Renewal Term

Lease Period	Minimum Annual Rent	Monthly Installment
01/01/08 through 12/31/08	\$828,873.96	\$69,072.83
01/01/09 through 12/31/09	\$853,740.18	\$71,145.02
01/01/10 through 12/31/10	\$879,352.38	\$73,279.33

6. Amendment of Expansion Option. Section 31 of the Lease entitled "Right of First Refusal," as amended by Section 8 of the First Amendment, is hereby deleted and the following substituted in lieu thereof:

Additional Space. If and when all or any part of the space shown as "Expansion Space" on Exhibit A-2 (the "Expansion Space") first becomes available for rental during the term of this lease and provided that Landlord has not given Tenant notice of default more than two (2) times during the immediately preceding twelve (12) months, and that there then exists no event of default by Tenant under this lease nor any event that with the giving of notice and/or the passage of time would constitute a default, Tenant shall have the right of first offer to lease all of the Expansion Space available for rental at such time, subject to the following:

(a) Landlord shall notify Tenant when all or a part of the Expansion Space first becomes available for rental by any party other than the tenant then in occupancy of the Expansion Space (the "Available Expansion Space") and Tenant shall have fourteen (14) days following receipt of such notice within which to notify Landlord in writing that Tenant is interested in negotiating terms for leasing such Available Expansion Space and to have its offer considered by Landlord prior to the leasing by Landlord of the Available Expansion Space to a third party. If Tenant notifies Landlord within such time period that Tenant is so interested, then Landlord and Tenant shall have sixteen (16) days following Landlord's receipt of such notice from Tenant within which to negotiate mutually satisfactory terms for the leasing of the Available Expansion Space by Tenant and to execute an amendment to this lease incorporating such terms or a new lease for the Available Expansion Space.

(b) If Tenant does not notify Landlord within such fourteen (14) days of its interest in leasing the Available Expansion Space or if Tenant does not execute such amendment or lease within such sixteen (16) days, if applicable, then this right of first offer to lease the Available Expansion Space will lapse and be of no further force or effect and Landlord shall have the right to lease all of part of the Available Expansion Space to any other party at any time on any terms and conditions acceptable to Landlord.

(c) This right of first offer to lease the Expansion Space is a one-time right if and when the Expansion Space first becomes available, is personal to Tenant, and is nontransferable; provided if only part of the Expansion Space becomes available for rental, Tenant's failure to exercise its right to lease such part of the Expansion Space shall not constitute a waiver of its right to lease the remaining portion of the Expansion Space pursuant to this Section 31 at such time as the remaining Expansion Space becomes available.

7. HVAC Service: The first two full sentences of Section 5(c) of the Lease are hereby deleted and the following substituted in lieu thereof:

"Landlord shall furnish heat, ventilation and air-conditioning to the Premises, Monday through Friday from 6:30 A.M. to 6:30 P.M., and on Saturday from 6:30 A.M. to 1:00 P.M., legal holidays excepted. Heat and air-conditioning required by Tenant at times other than those mentioned above shall be supplied upon reasonable prior notice to Landlord at the rate of \$30.00 per hour."

8. No Brokers: Tenant represents and warrants to Landlord that Tenant has not been represented by any real estate agent or broker in connection with the negotiation or execution of this Second Amendment and that no real estate agent or broker is entitled to a commission with respect to this Second Amendment as the result of any agreement or action of Tenant. In the event that any real estate agent or broker claims or asserts that it is entitled to a commission with respect to this Second Amendment based upon any agreement with Tenant or any action of Tenant, Tenant shall indemnify, defend and hold Landlord harmless with respect to such claim or assertion.

9. Reaffirmation of Lease: Except as expressly modified herein, the terms and conditions of the Lease shall remain unchanged and in full force and effect. All attached exhibits referred to herein are made a part of this Amendment and the Lease. Capitalized terms used herein and not otherwise defined herein shall have the meanings ascribed to them in the Lease.

[SIGNATURES ON FOLLOWING PAGE]

IN WITNESS WHEREOF, Landlord and Tenant have executed this Amendment as of the day and year first above written.

LANDLORD:
LIBERTY PROPERTY LIMITED PARTNERSHIP

By: Liberty Property Trust, Sole General
Partner

By: /s/ Lawrence D. Gildea

Name: Lawrence D. Gildea
Title: Senior Vice President

TENANT:
ANALOG DEVICES, INC.

By: /s/ William A. Martin

Name: William A. Martin
Title: Treasurer

Attest:

Name: /s/ Michael Ferdenzi
Title: Corporate Facilities Manager /
Real Estate

THIRD AMENDMENT TO OFFICE LEASE

THIS THIRD AMENDMENT TO OFFICE LEASE is made this 21st day of June, 2005 by and between LIBERTY PROPERTY LIMITED PARTNERSHIP, a Pennsylvania limited partnership ("Landlord") and ANALOG DEVICES, INC., a Massachusetts corporation having its principal place of business at One Triad Center, Greensboro, North Carolina ("Tenant").

BACKGROUND

A. One Triad Center Associates, a North Carolina general partnership which was Landlord's predecessor, and Tenant entered into an Office Lease dated November 14, 1997 (the "Lease"), covering premises in the building located at 7736 McCloud Road in Greensboro, North Carolina known as "One Triad Center" (the "Building"), which premises are more fully described in the Lease.

B. In accordance with the First Amendment to the Lease, Tenant (i) increased the amount of space leased to a total of 41,891 rentable square feet and (ii) extended the term of the Lease through December 31, 2002. Subject to the provisions of the First Amendment, Landlord agreed to such increase in the space leased and to such extension of the term.

C. In lieu of exercising its option to extend the term of the Lease pursuant to Section 30 of the Lease, Tenant extended the term of the Lease, through December 31, 2005, by way of the Second Amendment. Subject to the provisions of the Second Amendment, Landlord agreed to such extension of the term.

D. Tenant now desires to modify the terms of the option to extend the term of the Lease as noted in the Second Amendment, and Landlord has agreed to such modification. Accordingly, Landlord and Tenant desire to amend the lease by way of this Third Amendment.

NOW THEREFORE, the parties hereto, in consideration of the mutual promises and covenants contained herein and in the Lease, and intending to be legally bound hereby agree that, effective on the date hereof set forth above (the "Effective Date"), the Lease is amended as follows:

1. Section 5 of the Second Amendment is deleted and replaced with the following:

Automatic Term Renewals (Fixed Amount Rental Increases). The term of this Lease shall automatically be extended for an additional period of twenty-seven (27) months terminating on March 31, 2008 (the "First Renewal Term") unless Tenant shall provide Landlord written notice, at least three (3) months in advance of the Expiration Date (which is no later than September 30, 2005), of Tenant's election not to extend the term. In addition, the term of this Lease, as extended by the First Renewal Term, shall automatically be extended for an additional period of thirty-six (36) months terminating on March 31, 2011 (the "Second Renewal Term") unless Tenant shall provide Landlord written notice, at least six (6) months in advance of the Expiration Date (which is no later than September 30, 2007). as extended by the First Renewal Term, of Tenant's election not to extend the term. Notwithstanding the foregoing, Landlord may nullify Tenant's right to extend the term as herein provided by written notice to Tenant during the six (6) month period prior to the Expiration Date, as extended, in the event that Landlord has given Tenant notice of default more than two (2) times preceding the Expiration Date or there

exists an event of default by Tenant under this Lease or any event that with the giving of notice and/or the passage of time would constitute a default. Landlord and Tenant agree that time is of the essence and the renewal options are personal to Tenant and non-transferable to any assignee or sublessee. The First Renewal Term and Second Renewal Term shall be under the same terms and conditions as provided in this lease except as follows:

(a) The First Renewal Term shall begin on the Expiration Date and thereafter the Expiration Date shall be deemed to be the second anniversary thereof.

(b) The Second Renewal Term shall begin on the Expiration Date, as extended by the First Renewal Term, and thereafter the Expiration Date shall be deemed to be the third anniversary thereof.

(c) There shall be no options to extend or renew the term remaining after the expiration of the Second Renewal Term.

(d) The Minimum Annual Rent payable by Tenant shall be in the following amounts:

First Renewal Term

Lease Period	Minimum Annual Rent	Monthly Installment
01/01/06 through 12/31/06	\$781,293.20	\$65,107.76
01/01/07 through 03/31/08	\$804,732.00	\$67,061.00

Second Renewal Term

Lease Period	Minimum Annual Rent	Monthly Installment
04/01/08 through 03/31/09	\$828,873.96	\$69,072.83
04/01/09 through 03/31/10	\$853,740.18	\$71,145.02
04/01/10 through 03/31/11	\$879,352.38	\$73,279.33

[SIGNATURES ON FOLLOWING PAGE]

IN WITNESS WHEREOF, Landlord and Tenant have executed this Amendment as of the day and year first above written.

LANDLORD:
LIBERTY PROPERTY LIMITED PARTNERSHIP

By: Liberty Property Trust, Sole
General Partner

By: /s/ Lawrence D. Gildea

Name: Lawrence D. Gildea
Title: Senior Vice President

TENANT:
ANALOG DEVICES, INC.

By: /s/ William A. Martin

Name: -----
Title: -----

Attest:
Name: /s/ Michael Ferdenzi
Title: CORP REAL ESTATE

(LIBERTY PROPERTY TRUST LOGO)

November 29, 2005

Mr. Jim Hrycaj
Analog Devices, Inc.
7910 Triad Drive
Greensboro, NC 27409

RE: FOURTH AMENDMENT TO OFFICE LEASE DATED OCTOBER 26, 2005 FOR PREMISES
LOCATED AT 7736 MCCLOUD ROAD, GREENSBORO, NC 27409 BETWEEN LIBERTY PROPERTY
LIMITED PARTNERSHIP AS ("LANDLORD") AND ANALOG DEVICES, INC. AS ("TENANT")

Dear Jim:

This is to confirm the following with respect to the Fourth Amendment to Office
Lease:

COMMENCEMENT DATE: January 1, 2006
EXPIRATION DATE: MARCH 31, 2008

As set forth in the Lease, Minimum Annual Rent and Annual Operating
Expenses are due on or before the Commencement Date for the period from the
Commencement Date until the first day of the next calendar month unless the
Commencement Date is the first day of the calendar month. Accordingly, the
following amounts are due on or before the Commencement Date:

MONTHLY RENT INSTALLMENT: 531,662.61(REVISED)
MONTHLY OPERATING PAYMENT: +20,701.14(REVISED)

TOTAL MONTHLY PAYMENT: \$52,363.75(REVISED)

Thereafter, commencing February 1, 2006, regular monthly payments will be
due on the first in the following amounts until adjusted in accordance with the
Lease:

MONTHLY RENT INSTALLMENT: 531,662.61 (REVISED)
MONTHLY OPERATING PAYMENT: +20,701.14 (REVISED)

TOTAL MONTHLY PAYMENT: 552,363.75 (REVISED)

If you disagree with any of the information set forth above, please advise
us in writing within five days of your receipt of this letter; otherwise the
Commencement Date and the Expiration Date of the Lease will be as set forth
above.

Sincerely,

LIBERTY PROPERTY LIMITED PARTNERSHIP

By: Liberty Property Trust, Sole General
Partner

By William M. Flippin

Title: City Manager

Cc: Michael Ferdenzi
Cc: Mike Tierney

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Kingdom

FOURTH AMENDMENT TO OFFICE LEASE

THIS FOURTH AMENDMENT TO OFFICE LEASE IS made 24th day of October, 2005 by and between LIBERTY PROPERTY LIMITED PARTNERSHIP, a Pennsylvania limited partnership ("Landlord") and ANALOG DEVICES, INC., a Massachusetts corporation having its principal place of business at One Triad Center, Greensboro, North Carolina ("Tenant").

BACKGROUND

A. One Triad Center Associates a North Carolina general partnership which was landlord's predecessor, and Tenant entered into an Office Lease dated November 14, 1997 (the "Original Lease"), covering premises in the building located AT 7736 McCloud Road in (Greensboro, North Carolina known as "One Triad Center" (the "Building"), which premises are more fully described in the Original Lease as amended as set forth below.

B. Landlord acquired the Building from One Triad Center Associates and thereafter Landlord and Tenant entered into a First Amendment to Office Lease dated March 9, 2000 by which the Landlord and tenant agreed to amend the Original Lease, among other things, to increase the size of the Premises leased to Tenant and to extend the term of the Original Lease to and including December 31, 2002 (the "First Amendment").

C. Subsequent to the execution of the First Amendment, Landlord and Tenant entered into a Second Amendment to Office Lease dated March 25, 2002 by which the Original Lease was further amended, among other things, to extend the term thereof through and including December 31, 2005 (the "Second Amendment").

D. Subsequent to the execution of the Second Amendment, Landlord and tenant entered into a Third Amendment to Office Lease dated June 21, 2005 by which the provisions of the Second Amendment which provided for an automatic renewal of the term of the Lease were modified (the "Third Amendment"). (As used herein, the term "Lease" shall mean the Original Lease as amended by the First Amendment, the Second Amendment and the third Amendment.)

E. Tenant has provided a notice to Landlord that Tenant has elected, not to extend the term of the Lease pursuant to the automatic renewal provisions thereof as provided for in the Third Amendment. Nonetheless, Landlord and Tenant have agreed to extend the term of the Lease for a period of twenty-seven (27) additional months beyond the current expiration date of the Lease (which is December 31, 2005) and Landlord and Tenant desire by this Fourth Amendment to Office Lease to set forth their agreements with respect to the extension of the term of the Lease,

NOW THEREFORE, the parties hereto, in consideration of the mutual promises and covenants contained herein and in the Lease, and intending to be legally bound hereby, agree that, effective on the date hereof set forth above (the "Effective Date"), the Lease is amended as

1. Extension of Term: The term and duration of the Lease (for all of the Premises including without limitation the Original Premises, the First Additional Space and the Second Additional Space as detailed in the First Amendment and consisting of 41,891 rentable square feet) is hereby extended to and including March 31, 2008.

2. Minimum Annual Rent During Extended 'term: From the date hereof until December 31, 2005, Tenant shall continue to pay monthly installments of minimum annual rent mid payments of Tenant's Proportionate Share of Operating Expenses and Taxes in the amounts and in the manner as are currently provided for in the Lease. Effective with the monthly installment of minimum annual rent due on January 1, 2006 and continuing through the remainder- of the term of the Lease as extended hereby, the minimum annual rents and the monthly installments thereof shall be as follows;

Time Period	Minimum Annual Rent	Monthly Installment Amount
01/01/06 through 12/31/06	\$628,365.00	\$52,363.75
01/01/07 through 03/31/08	\$649,310.50	\$54,109.21

Such monthly installments of minimum annual rent shall be due and payable on the first day of each calendar month commencing on January 1, 2006 and continuing through and including March 1, 2008 Tenant shall pay Tenant's Share of Operating Expenses and Taxes for the calendar year 2005 when and as such payment is due under the Lease unaffected by the provisions of this Fourth Amendment. Tenant shall not be obligated to pay any amount for Tenant's Share of Operating Expenses and Taxes for the calendar year, 2006 and for calendar year 2006 the installment payments of minimum annual rent as set forth above shall include whatever share of the Operating Expenses and Taxes for 2006 for which Tenant is responsible. Furthermore, Landlord agrees that calendar year 2006 shall constitute a new "Base Year" under the i.ea5e for the purpose of computing Tenant's Share of Operating Expenses and Taxes due with respect to periods from and after December 31, 2006, Accordingly, for and with respect to each calendar year Or the term of the Lease commencing with the year 2007, there shall be due from Tenant as additional rent due under the Lease Tenant's Share of the excess of the Operating Expenses and Taxes for such year over the total of the Operating Expenses and Taxes for the year 2006. Such additional rent shall be computed and paid in the manner as provided for in Section 3 of the Original Tease except that the Base Year shall be 2006 instead of 1998 and Tenant's Share of such excess Operating Expenses and taxes shall be 58,74% of the total thereof.

"AS IS, WHERE IS": Tenant acknowledges and agrees that it has agreed to extend the term of the Lease as provided herein with the Premises in their "AS IS WHERE IS" condition mid that Landlord has not agreed to make and Landlord shall not be obligated to make any improvements or refurbishments of the Premises in order to induce Tenant to extend the term of the Lease as provided herein.

Renewal Option: Landlord and Tenant acknowledge and agree that the automatic renewal provisions as set fourth in the Third Amendment arc no longer elective inasmuch as Tenant elected not to extend the term of the Lease as provided therein. Accordingly, Section 1

of the Third Amendment and Section 5 of the Second Amendment are hereby deleted from the Lease. From and after the Effective Date hereof, the Lease shall be amended to provide to Tenant the following renewal option which shall be in lieu of any and all other renewal rights or options currently provided in the Lease and which shall be deemed to replace and supersede Section 30 of the Original Lease and Section 7 of the First Amendment.

Option TO Extend Term, Provided that there then exists no event of default by Tenant under this lease which has continued beyond any applicable notice and cure periods, tenant shall have the right and option to extend the term for one (1) additional period of Thirty-Six (36) months, exercisable by giving Landlord prior written notice, at least six (6) months in advance of the Expiration Date, of Tenant's election to extend the term; it being agreed that time is of the essence. Such extension shall be under the same terms and conditions as provided in this lease except as follows:

(a) the additional period (referred to herein as the 'Additional Period') shall begin on the Expiration Date as set forth herein (that is, March 31, 2008) and thereafter the Expiration Date shall be deemed to be Thirty-Six (36) months after such Expiration Date (that is, March 31, 2011):

(b) all references to the term in this lease shall be deemed to mean the term as extended pursuant to this Section: and

(c) the Minimum Annual Rent payable by Tenant for such, Additional Period shall be the then current Market Rental Rate for like buildings in the Airport submarket of Greensboro, North Carolina for such Additional Period. For the purposes hereof "Market Rental Rate" shall be defined as the minimum annual base rentals that would be agreed to after arms length negotiations by a landlord and a new tenant, each of whom is willing and informed, but neither of whom is compelled, to enter into the lease transaction for premises comparable to the Premises for a lease term equal to the Additional Period and taking into account all aspects of the Premises, including the then physical condition of the Premises, the then current market conditions for computing escalations and adjustments to base annual rents, operating expense pass-throughs provisions, inducements and concessions customary in a new lease and other relevant economic factors of a new lease. Promptly following Tenant's exercise of this renewal option, Landlord shall notify Tenant of the rental rates that Landlord contemplates to be the Market Rental Rates applicable during the Additional Period. If Tenant does not object to Landlord's determination of the Market Rental Rates in writing within thirty (30) days of Landlord's notice, then Landlord's determination of the Market Rental Rates shall be deemed conclusive. If Tenant objects in writing to Landlord's determination of the Market Rental Rates within thirty (30) days of Landlord's notice, then the parties will attempt to agree upon such Market Rental Rate. If Landlord and Tenant are unable to agree upon the Market Rental Rate for the Additional Period prior to that date which is one hundred twenty (120) days prior to the commencement of the Additional Period, then the Market Rental Rate shall be determined by an arbitration proceeding conducted in accordance with the rules of American Arbitration Association for Commercial Real Estate disputes. The arbitration shall be conducted in Greensboro, North Carolina. The cost of arbitration shall be shared equally by Landlord and Tenant. If the Market Rental Rate has not been finally determined prior to the commencement of the Additional Period, then upon the

commencement of the Additional Period, Tenant shall begin paying rents in the amounts as set forth in Landlord's last offer to Tenant until such Market Rental Rate is finally determined. If such Market Rental Rate as finally determined is less than the rate at which rents have been paid by Tenant during the Additional Period from the commencement thereof until the determination Of the Market Rental Rate. then Landlord shall either refund to Tenant the amount of such overpayment or credit the amount of such overpayment to subsequent installments of rent. If the Market Rental Rate as finally determined is more that the rate at which rents have been paid by tenant during the Additional Period from the commencement thereof until the determination of the Market Rental Rate, then Tenant shall pay to Landlord an amount equal to the excess within fifteen (15) days of the determination of the Market Rental Rate.

5. No Expansion Rights. Landlord and Tenant hereby agree that from and after the Effective Date, Tenant shall not have any rights or options to expand the Premises to include any additional space. Accordingly, any and all provisions of the existing Lease granting to Tenant any right to expand the Premises or obligating Landlord to offer additional expansion, space to the Tenant are hereby deleted.

6. No Brokers: Tenant represents and warrants to Landlord that Tenant has not been represented by any real estate agent or broker in connection with the negotiation or execution of this Fourth Amendment except David Hagan of Hagan Properties Incorporated ("Tenant's Broke") and that no real estate agent or broker other than Tenant's Broker is entitled to a commission with respect to this Fourth Amendment as the result of any agreement or action of Tutuila In the event that any real estate agent or broker other than Tenant's Broker claims or asserts that it is entitled to a commission with respect to this Fourth Amendment based upon any agreement with Tenant or any action of Tenant. Tenant shall indemnify, defend and hold 1 And lo rd harmless with respect to such claim or assertion. Landlord recognizes Tenant's Broker as Tenant's real estate agent in connection with the extension of the term of the Lease provided for herein and Landlord agrees to pay a commission to Tenant's Broker pursuant and subject to a separate agreement between Landlord and Tenant's Broker providing for such commission.

7. Reaffirmation of Lease: except as expressly modified herein, the terms and conditions of the Lease shall remain unchanged and in full force and effect. Capitalized terms used herein and no otherwise defined herein shall have the meanings ascribed to them in the Lease.

IN WITNESS WHEREOF, Landlord and Tenant have executed this Fourth Amendment to Office Lease as of the day and year first above written.

LANDLORD:
LIBERTY PROPERTY LIMITED PARTNERSHIP

By: /s/ Lawrence D. Gildea

Name: Lawrence D. Gildea
Title: Senior Vice President

TENANT:
ANALOG DEVICES, INC.

By: /s/ William A. Martin

Name: William A. Martin
Title: Treasurer

SUBSIDIARIES OF THE REGISTRANT
As of October 28, 2006

NAME OF SUBSIDIARY	STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION
Analog Devices Limited	United Kingdom
Analog Devices, GmbH	Germany
Analog Devices, SAS	France
Analog Devices, K.K.	Japan
Analog Devices ApS	Denmark
AudioAsics A/S	Denmark
Analog Devices A.B. *	Sweden
Analog Devices SRL	Italy
Analog Devices, GMBH	Austria
Analog Devices Korea, Ltd.	Korea
Integrant Technologies, Inc.	Korea
Analog Devices, B.V.	The Netherlands
Analog Devices Holdings, B.V.	The Netherlands
Analog Devices Nederland, B.V.	The Netherlands
Analog Devices (Philippines), Inc.	The Philippines
Analog Devices Gen. Trias, Inc.	The Philippines
Analog Devices Realty Holdings, Inc. (40% owned)	The Philippines
Analog Devices Taiwan, Ltd.	Taiwan
Analog Devices Hong Kong, Ltd.	Hong Kong
Analog Devices Pty, Ltd.	Australia
Analog Devices Australia Pty. Ltd.	Australia
Analog Devices India Private Limited	India
ChipLogic India Private Limited	India
Analog Devices Ireland, Ltd.	Ireland
Analog Devices International Financial Services Limited	Ireland
Analog Research & Development Ltd.	Ireland
Analog Nominees Limited	Ireland
Analyzed Investments, Ltd.	Ireland
Edinburgh Portable Compilers Limited	Scotland
Analog Devices Israel, Ltd.	Israel
Analog Development (Israel) 1996 Ltd.	Israel
Analog Devices (China) Co. Ltd.	China
Analog Devices Canada, Ltd.	Canada
Analog Devices S.L.	Spain
Analog Devices IMI, Inc.	California
Analog Devices ChipLogic, Inc.	California
Staccato Systems, Inc.	California
Analog Devices Foundry Services, Inc.	Delaware
Analog Devices Asian Sales, Inc.	Delaware
ADI Micromachines, Inc.	Delaware
Analog/ NCT Supply Ltd. (50% owned)	Delaware
Analog Devices International, Inc.	Massachusetts

* Also doing business as Analog Devices Aktiebolag, Suomen sivuliike

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statements (Form S-8 Nos. 2-63561, 2-90023, 2-95495, 33 2502, 33-4067, 33-22604, 33-22605, 33-29484, 33-39851, 33-39852, 33-43128, 33-46520, 33-46521, 33-60642, 33-60696, 33-61427, 33-64849, 333-04771, 333-04819, 333-04821, 333-08493, 333-40222, 333-40224, 333-47787, 333-47789, 333-48243, 333-56529, 333-57444, 333-69359, 333-79551, 333-87055, 333-50092, 333-53314, 333-53828, 333-75170, 333-113510 and 333-132409, and Form S-3 Nos. 333-08505, 333-08509, 333-17651, 333-87053, 333-48928, 333-51530 and 333-53660) of Analog Devices, Inc. and in the related Prospectuses of our reports dated November 16, 2006, with respect to the consolidated financial statements and schedule of Analog Devices, Inc., Analog Devices, Inc. management's assessment of the effectiveness of internal control over financial reporting, and the effectiveness of internal control over financial reporting of Analog Devices, Inc., included in this Annual Report (Form 10-K) for the year ended October 28, 2006.

/s/ Ernst & Young LLP

Boston, Massachusetts
November 16, 2006

CERTIFICATION

I, Jerald G. Fishman, certify that:

1. I have reviewed this Annual Report on Form 10-K of Analog Devices, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: November 20, 2006

/s/ Jerald G. Fishman

Jerald G. Fishman
President and Chief Executive Officer
(Principal Executive Officer)

CERTIFICATION

I, Joseph E. McDonough, certify that:

1. I have reviewed this Annual Report on Form 10-K of Analog Devices, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: November 20, 2006

/s/ Joseph E. McDonough

Joseph E. McDonough
Vice President-Finance
and Chief Financial Officer
(Principal Financial and Accounting Officer)

**Certification Pursuant to 18 U.S.C. Section 1350,
As Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Annual Report on Form 10-K of Analog Devices, Inc. (the "Company") for the period ended October 28, 2006 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Jerald G. Fishman, Chief Executive Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, that, to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: November 20, 2006

/s/ Jerald G. Fishman

Jerald G. Fishman
Chief Executive Officer

**Certification Pursuant to 18 U.S.C. Section 1350,
As Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Annual Report on Form 10-K of Analog Devices, Inc. (the "Company") for the period ended October 28, 2006 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Joseph E. McDonough, Chief Financial Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, that, to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: November 20, 2006

/s/ Joseph E. McDonough

Joseph E. McDonough
Chief Financial Officer