

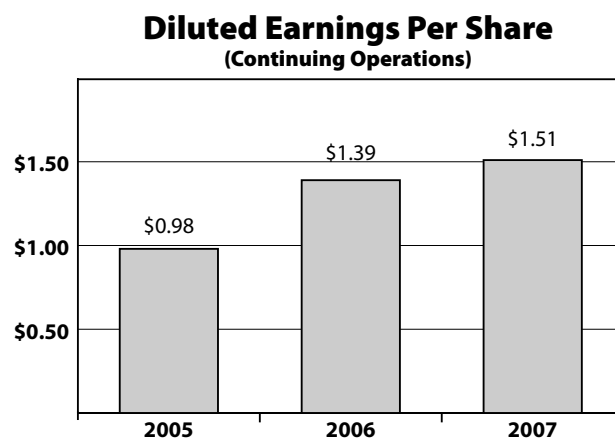
Dear Shareholders:

Fiscal 2007 was a year marked by both continuity and change for ADI. We made important strategic decisions regarding the markets in which we will compete going forward, while staying true to the tenets that have supported our success in the past by continuing to invest in core signal processing technology that offers our customers a competitive advantage. Our financial performance during fiscal 2007 was solid. Despite weaker overall market conditions, we grew revenue faster than our competitors. Our gross profits and operating profits continued to be among the best in the semiconductor industry.

During 2007, we intensified our focus on opportunities that should produce solid growth, high and sustainable margins, good return on research and development (R&D) investments, and high return on assets and equity. As such, we decided to divest the cellular handset radio and baseband modem chipset business. As the calendar year end approached, we divested our CPU voltage regulation and PC thermal monitoring business as well. Despite a competitive product portfolio in each of these areas, we concluded that the investments required to grow these businesses were not commensurate with the returns that we could generate. By selling these businesses, we provided a good path forward for our customers, a good opportunity for the employees in these businesses, and much better returns for our investors, as evidenced by the improving profit margins and return on investment we expect going forward. Given the timing of these transactions, our financial results presented in this annual report are for continuing operations which exclude only the cellular handset radio and baseband operations.

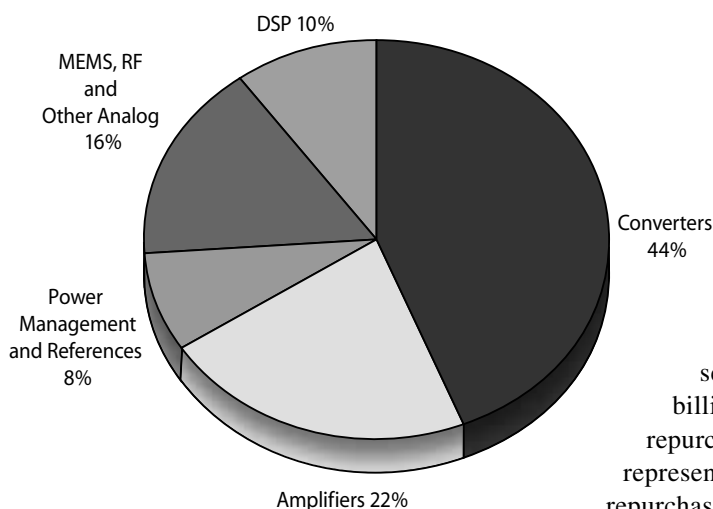
Product revenue for fiscal year 2007 grew to \$2.5 billion, an increase of 7% from the previous fiscal year. Diluted earnings per share (EPS) from continuing operations was \$1.51 for fiscal year 2007, compared to \$1.39 for the previous year.

Revenue from analog products increased 9% in fiscal 2007 and now accounts for 90% of product revenue. Within this product category, revenue from converter products increased 8% for the year, while amplifier product revenue increased 5% for the



year. Revenue from other analog products, including Micro-Electro Mechanical Systems (MEMS) and Radio Frequency (RF) products, increased 27% for the year. During 2007, we continued to refine our strategy for digital signal processing (DSP) technology to focus on general-purpose DSP products, which represented 9% of total product revenue and increased 4% for the year.

2007 Revenue By Product Category: \$2.5 Billion



Revenue from analog products grew 9% year-to-year and represented 90% of total product revenue.

During 2007, we generated \$820 million of operating cash flow, or 32% of total revenue, and we continued to use our strong balance sheet to improve shareholder returns. For the year, we paid \$228 million in cash dividends, representing one of the highest yields among semiconductor companies. We also repurchased over \$1.6 billion of ADI stock, for a total of \$3.3 billion of stock repurchased since the beginning of the fourth quarter of 2004, representing 25% of outstanding shares. These large stock repurchases will accelerate the growth rate of EPS as net income grows. We ended the fiscal year with cash and short-term investments of approximately \$1.1 billion.

2007 Annual Report

Our performance is the result of our continuous dedication over many decades to providing the semiconductor technology required to connect electronics to the real world. The profusion of digital products in many diverse end markets and applications has triggered a similar, and often proportionately larger, requirement for high-performance analog technology. Industry analysts estimate that for every dollar of digital content added to an electronic product, more than a dollar of analog technology is also required.* Analog content often defines the user experience. ADI technology often optimizes the sharpness of the picture, the fidelity of the music, and the size, shape and battery life of the system, and as a result, gives our customers a competitive edge.

Our breadth of products, customers, and applications makes ADI a very unique semiconductor company. We serve over 50,000 customers worldwide with over 10,000 standard products. In addition, we selectively invest in more specialized products for applications where the customer base is narrow, but unit volumes per customer are very high. This allows us to leverage investments in core signal processing technology while earning a very good return on the assets employed.

In the medical instrumentation market, our focus on the user experience takes on profound meaning. Precision is critical in this market and ADI's high-performance signal processing technology has enabled advances in CT, MRI, PET, digital X-ray, and ultrasound scanners, resulting in faster and more accurate diagnoses with fewer invasive procedures. Further, ultrasound examinations are increasingly conducted in non-traditional environments, such as doctors' offices, ambulatory units, and remote rural or under-developed locations. But the convenience of portability has historically required manufacturers to sacrifice image quality, limiting the medical diagnoses that are possible. The AD9271, introduced in 2007, integrates eight data channels on a single chip. This unprecedented level of integration allows medical equipment designers to reduce the size of the signal path for mobile ultrasound systems by 50 percent and lower power requirements by 25 percent, all while achieving performance standards required in critical care settings.

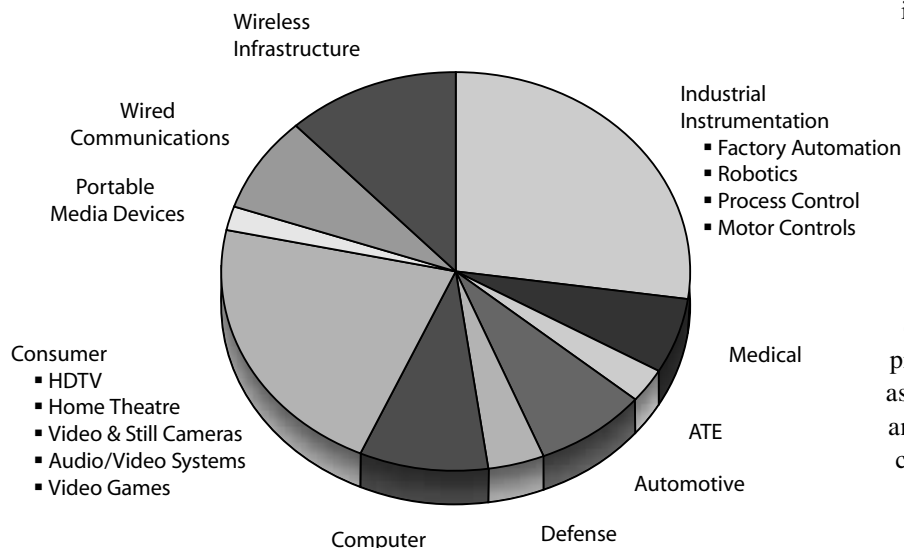
Another example of the proliferation of ADI's technology is occurring in today's automobiles, which are increasingly becoming rolling collections of innovative vehicle safety, convenience, and performance subsystems with the driver experience in mind. In fact, in 2007 model year vehicles, industry observers estimate that nearly 20% of the vehicle cost is

electronic equipment. While the auto industry unit growth rate is low, the value of the electronic content per vehicle is growing at a much faster rate. We believe the market for our products in automobiles could nearly double by the year 2011 as regulatory forces, consumer expectations, and driver convenience continue to propel advances in automobile electronics.

In vehicle safety, for example, the initial emphasis was on passive systems such as seat belts, crumple zones, and airbags to reduce injuries in crashes. Today the focus is on crash prevention with active safety systems such as antilock brakes, electronic skid control, and anti-rollover systems. These stability control systems require very precise measurement of chassis position and both linear and rotational acceleration and have historically required relatively expensive inertial sensors. ADI's newest iMEMS® accelerometers and gyroscope sensors—motion sensors similar in concept to those used in

popular video game controllers—will enable high reliability and more cost-effective deployment into the mass market.

2007 Revenue By End Market



Across a wide range of applications, ADI technology often optimizes the sharpness of the picture, the fidelity of the music, and the size, shape and battery life of the system, and as a result, gives our customers a competitive edge.

* Databeans, 2008

President's Letter to Shareholders

ADI's signal processing technology will continue to influence the driving experience of the future as innovations in safety systems, entertainment, and efficiency require more signal processing content at higher performance levels.

The continued demand for cellular handsets and the increasing popularity of new functions—such as text messaging, downloadable ring tones, cameras, music players, and television—has led to a corresponding demand for base stations that can process multiple wireless standards, handle the complex modulation requirements of 3G systems, accommodate several input and output sources in antenna systems, and offer increased coverage per tower. ADI's wireless infrastructure solutions help define the user experience by accurately and efficiently amplifying, converting, and processing the signals and by delivering, in real-time, enhanced sound, images, and data to the end-user. High-performance products from ADI can be found almost everywhere in the wireless infrastructure, enabling wireless consumers to enjoy more features, faster delivery of data services, and fewer dropped calls.

These are just a few examples where it may not have been obvious how our focus on the user experience leads to profound competitive advantage for our customers. The more typical area of the market that people relate to user experience is consumer electronics.

Revenue from consumer applications was the fastest growing portion of our business in 2007, as our solutions addressed signal processing challenges related to video and audio quality and connectivity and enabled our customers to create differentiated products that command a premium from consumers. If you own a digital camera, a high-definition television or if your living room is equipped with surround sound, the odds are you've experienced ADI's technology and its ability to improve the user experience.

As we look ahead to fiscal 2008, ADI remains well positioned to grow and earn solid returns.

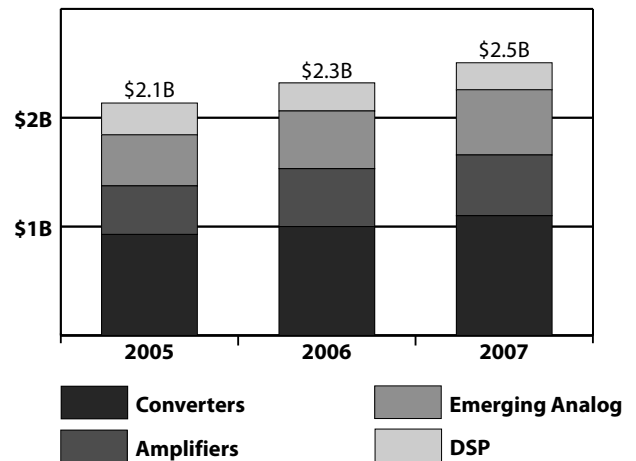
- Our high-performance analog business remains very strong. Sales of converters and amplifiers now represent 66% of our total product revenue and these two product categories provide an attractive blend of long life cycle products with steady growth and products that supply compelling technology into very fast growing markets such as digital TVs, communications, and medical electronics. Our market share and brand recognition in converters and amplifiers are strong in every major region of the world.

- We prioritized our investments in analog signal processing technologies throughout 2007 in support of our strategy to develop core technologies that can enable significant levels of differentiation across a broad range of applications. This investment strategy has produced a portfolio of "vintage" products that consistently produce high profits over unusually long life cycles and allow us to win design-ins in multiple generations of applications across very diverse markets.

- We significantly raised our investment levels in emerging analog product categories, with the goal of gaining market share in RF technology, power management, MEMS products, and low power converters aimed at portable consumer and communications products. We've already begun to see the results of these investments and these products should continue to be growth drivers in 2008, as well as providing strong operating leverage as revenue increases.

- Our product portfolio now includes a richer mix of fast-growing, high margin products and our inventories are now approaching our model levels, which will also help improve gross margins. Additionally, we expect to be in volume production of consumer MEMS products in Asia in 2008, which will allow for significantly lower cost and will improve our ability to scale volumes commensurate with market demand. We've also taken actions to reduce the cost of our manufacturing infrastructure with the closure in November of 2006 of our wafer fabrication facility in California and with the decision to focus our manufacturing in Ireland only on 8-inch wafer capacity.

Revenue by Product Category

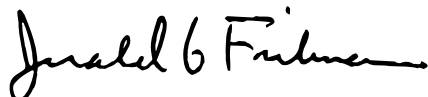


2007 Annual Report

- Our end market performance remains strong and diversified. For the full year, revenue from products sold to industrial customers, which includes sales of products to medical, security, automotive, defense, and instrumentation applications, grew 7%. Revenue from consumer applications increased 23%, primarily due to sales of products into digital TVs, digital cameras, home theatre, and video games. Revenue from communications customers grew 7%. Our revenue in the computer market declined 17% in 2007, primarily due to our strategic decision to transition our power management portfolio away from PC products. Within each of these end markets are literally hundreds of applications that increasingly rely on innovative signal processing technology to enable new user experiences.

The distinct value proposition offered by Analog Devices is our ability to deliver innovative signal processing solutions that give our customers a competitive edge. The breadth of our product lines and the depth of our core technologies are an unmatched combination. We continue to cultivate an environment that appeals to the best and the brightest people who value innovation, collaboration, and technology leadership. We have invested in our employees' future and ADI's future. We've built strong relationships with customers. The growth opportunities ahead for ADI remain virtually endless and we are enthusiastic about what the future holds for our company, our employees, and our shareholders.

Sincerely,

A handwritten signature in black ink that reads "Jerald G. Fishman". The signature is written in a cursive, flowing style.

Jerald G. Fishman
President and Chief Executive Officer

President's Letter to Shareholders

This letter may be deemed to contain forward-looking statements, which are subject to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements include, among other things, our statements regarding expected revenue and margin growth, ADI's product development and R&D investment strategies, expected benefits from recent divestitures, expected market growth, conditions and opportunities, expected customer demand levels, and other financial results, and are based on our current expectations, beliefs, assumptions, estimates, forecasts, and projections about the industry and markets in which we operate. Actual outcomes and results may differ materially from what is expressed in such forward-looking statements. We do not undertake any obligation to update forward-looking statements made by us. Important factors that may affect future operating results include the effects of adverse changes in overall economic conditions, currency exchange rate fluctuations, the timing and duration of market upturns and downturns, the growth or contraction of the markets we serve, demand for semiconductors generally and for our products in particular, the risk that our backlog could decline significantly, adverse results in various litigation matters, our ability to hire engineers, salespeople and other qualified employees needed to meet the expected demands of our customers, reversals or slowdowns in the markets or customers served by our products, the adverse effects of building inventories to meet planned growth that fails to materialize, the occurrence and frequency of inventory and lead-time reduction cycles, raw material availability, availability of both internal and external manufacturing capacity, technological and product development risks, competitors' actions and technological innovations, our failure to realize the expected benefits of recent divestitures in a timely manner, or at all, and other risk factors described in our most recent filings with the Securities and Exchange Commission.

Analog Devices and the Analog Devices logo are registered trademarks or trademarks of Analog Devices, Inc. All other trademarks mentioned in this document are the property of their respective owners.

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 November 3, 2007

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 \$8,498,000,000 based on the last reported sale of the Common Stock on the New York Stock Exchange Composite Tape reporting system on May 4, 2007. 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 November 3, 2007 there were 303,354,180 shares of Common Stock, \$0.16²/₃ par value per share, outstanding.

Documents Incorporated by Reference

Document Description

Form 10-K Part

Portions of the Registrant's Proxy Statement for the Annual Meeting of Shareholders to be held March 11, 2008

III

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. Our products are embedded inside electronics that people come into contact with every day. 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 including 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.

In September 2007, we entered into a definitive agreement to sell our baseband chipset business and related support operations, or Baseband Chipset Business, to MediaTek Inc. Accordingly, these operations have been presented as a discontinued operation within the consolidated financial statements in accordance with Statement of Financial Accounting Standards No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets (SFAS 144)*. The financial statements and related footnote disclosures reflect the results of this business in discontinued operations, net of applicable income taxes for all reporting periods presented. Unless otherwise noted, the discussions contained in the Annual Report on Form 10-K relate only to results from continuing operations. The Company expects to recognize a gain from the sale of the Baseband Chipset Business upon completion of the sale in the first quarter of fiscal 2008.

During our fiscal year ended November 3, 2007, or fiscal 2007, approximately 47% of our product 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 22% of our fiscal 2007 product revenue. Communications applications include wireless handsets and wireless basestations, as well as products used for high-speed access to the Internet, including central office networking equipment.

The demand for our products used in high-performance consumer electronics represented approximately 22% of our product revenue for fiscal 2007. Applications in this market include digital cameras and camcorders, flat-panel and plasma digital televisions, video game applications and surround sound audio systems.

We also serve the personal computer and network server markets with products that monitor and manage power usage, and enable high-quality audio. In fiscal 2007, the computer market accounted for approximately 9% of our product revenue.

We sell our products worldwide through a direct sales force, third-party distributors and independent sales representatives and through our website. We have direct sales offices in 18 countries, including the United States.

We are headquartered near Boston, in Norwood, Massachusetts, and have manufacturing facilities in Massachusetts, Ireland and the Philippines. We were founded in 1965 and are incorporated in Massachusetts. As of November 3, 2007, we employed approximately 9,600 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, our code of business conduct and ethics, and our related person transaction policy, and such information is available in print to any shareholder 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 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.”

Significant developments in semiconductor technology in recent years have substantially increased the performance and functionality of integrated circuits, or ICs, used in signal processing applications. These developments include: the ongoing transition to digital media for communications, music, photography, and video, which has increased the need for precise, high-speed signal conditioning interfaces between the analog world and digital electronics; the ability to combine analog and digital signal processing capability on a single chip, thereby making possible more highly-integrated solutions; and the widespread application of low-cost, high-performance microprocessor-based systems, which enables customers to convert analog information into digital information that can be managed by these microprocessors. At the same time, the convergence of computing, communications, and consumer electronics has resulted in end products that incorporate state-of-the-art signal processing capability onto fewer chips and with less power consumption. 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 product portfolio are both general-purpose 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 data conversion, amplification, power management, radio frequency 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 2007. 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 over four decades, and we believe we are one of the world's largest suppliers of analog ICs. Our analog signal processing 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 signal processing IC product revenue is attributable to sales of data converters and amplifiers. The data converter and amplifier product categories represented approximately 66% of our fiscal 2007 product revenue. Over the past several years we have been expanding our analog IC product offerings along the entire signal chain and into product areas such as radio frequency integrated circuits, or RF ICs, power management products, 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 sub-systems 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 and in video game 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. DSP product revenue represented 10% of our fiscal 2007 product revenue. 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 using 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 software for applications such as audio processing, 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 are designed to reduce our customers' product development costs and time-to-market.

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.

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, as well as powertrain electronics. In response, we have developed products specifically for the automotive market. We supply a MEMS 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, pagers, PBX switches, routers and remote access servers.

Consumer — Increased market demand for digital entertainment systems and the consumer demand for high quality voice, music, movies and photographs has allowed us to combine analog and digital design capability to provide solutions that meet the rigorous cost requirements of the consumer electronics market. The emergence of high-performance, feature-rich consumer products, such as digital camcorders and cameras, home theater systems, LCD and plasma digital televisions, video projectors, video game applications and high-definition DVD recorders/players, has created a market for our high-performance ICs with a high level of specific functionality.

Computer — We currently supply ICs used in computers for enhanced audio input and output capability for business and entertainment applications. These products are sold under the brand name, SoundMAX®. A variety of our analog products also have application in network servers and laptop PCs, as well as computer peripherals such as displays, printers and scanners.

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 \$519 million during fiscal 2007 on the design, development and improvement of new and existing products and manufacturing processes, compared to approximately \$469 million during fiscal 2006 and approximately \$438 million during fiscal 2005.

Our research and development strategy focuses on building technical leadership in core technologies for signal sensing, conditioning, conversion and processing. In addition, we have been increasing our investment in analog products used for power management. In support of our research and development activities, we employ thousands of engineers involved in product and manufacturing process development at over 40 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 November 3, 2007, we held approximately 1,388 U.S. patents and approximately 488 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. In connection with our announced divestiture transactions expected to close in fiscal 2008, we will transfer ownership of approximately 73 U.S. patents and 60 non-provisional pending U.S. patent applications. 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 we determine 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 12 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 53% of our fiscal 2007 product 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.

The categorization of sales into geographic regions is based upon the location of the customer.

Approximately 26% of our fiscal 2007 product revenue was to customers in the United States. As of November 3, 2007, we had 11 direct sales offices in the United States.

Approximately 24% of our fiscal 2007 product revenue was to customers in Europe. As of November 3, 2007, we had direct sales offices in Austria, Belgium, Denmark, France, Germany, Israel, Italy, the Netherlands, Sweden, and the United Kingdom.

Approximately 20% of our fiscal 2007 product revenue was to customers in Japan.

Approximately 13% of our fiscal 2007 product revenue was to customers in China and approximately 17% was to customers elsewhere in Asia, principally Taiwan and Korea. As of November 3, 2007, 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 40 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 this 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 2007 product revenue, and our 20 largest customers, excluding distributors, accounted for approximately 27% of our fiscal 2007 product revenue.

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 included elsewhere in this report, our revenue is more likely to be influenced on a quarter to quarter basis by cyclicality in the semiconductor industry.

Foreign Operations

Through subsidiaries and affiliates, we conduct business in numerous countries outside the United States. During fiscal 2007, approximately 74% of our product 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 complementary metal-oxide semiconductor, or 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.

Capital spending including that related to our Baseband Chipset Business, which is reflected as a discontinued operation, was \$141.8 million in fiscal 2007, compared with \$129.3 million in fiscal 2006. We currently plan to make capital expenditures of approximately \$160 million in fiscal 2008.

Our products require a wide variety of components, raw materials and external foundry services, most of which we purchase from third-party suppliers. We have multiple sources for many of the components and materials that we purchase and incorporate into our products. However, a large portion of our external wafer purchases and foundry services are from a limited number of suppliers, primarily Taiwan Semiconductor Manufacturing Company (TSMC). If TSMC or any of our other key 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 significant expenses and disruptions or delays in manufacturing, product development and shipment of product to our customers. Although we have experienced shortages of components, materials and external foundry services from time to time, these items have generally been available to us as needed.

Backlog

Backlog at the end of fiscal 2007 was approximately \$408 million, up from approximately \$376 million at the end of fiscal 2006. This backlog includes approximately \$14 million and \$10 million at November 3, 2007 and October 28, 2006, respectively, from our CPU voltage regulation and PC thermal monitoring business that will be reclassified in the first quarter of fiscal 2008 to discontinued operations. Additional information relating to this divestiture is set forth below under the heading *Acquisitions, Divestitures and Investments*. 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 cancelled 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 cancelled 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 2007 product 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 September 2007, we entered into a definitive agreement to sell our Baseband Chipset Business to MediaTek Inc. We will also license to MediaTek Inc. related technology and intellectual property rights, subject to certain field of use restrictions. We expect to close the transaction during the first quarter of fiscal 2008.

In November 2007, we entered into a purchase and sale agreement with certain subsidiaries of ON Semiconductor Corporation, or ON, to sell our CPU voltage regulation and PC thermal monitoring business. The business to be sold consists of core voltage regulator products for the CPU in computing and gaming applications and temperature sensors and fan-speed controllers for managing the temperature of the CPU. As part of the transition, we also agreed to enter into a one-year manufacturing supply arrangement with ON. We expect to close this transaction during the first quarter of fiscal 2008. This business met the assets held for sale criteria on November 8, 2007, and will therefore be accounted for as a discontinued operation in the first quarter of fiscal 2008.

Additional information relating to our disposition and acquisition activities during fiscal 2007 and fiscal 2006 is set forth in Note 2u. and Note 6 of the Notes to Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

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, Freescale Semiconductor Inc., Infineon Technologies, Intersil Corporation, Linear Technology Corporation, Maxim Integrated Products, Inc., National Semiconductor Corporation, NXP Semiconductors, ST Microelectronics, Silicon Laboratories, Inc. and Texas Instruments, Inc.

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 into 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 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. 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 November 3, 2007, we employed approximately 9,600 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 design, support and manufacture of new and existing 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, gross margins, operating results and net income are difficult to predict and may materially fluctuate.

Our future revenue, gross margins, operating results and net income 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 geographic, product or customer mix;
- potential significant litigation-related costs;
- the difficulties inherent in forecasting future operating expense levels;
- the costs related to compliance with increasing worldwide environmental regulations;
- changes in our effective tax rate;
- 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, gross margins and operating results on a quarterly or annual basis. In addition, if our revenue, gross margins, operating results and net income 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 cancellations 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 cancelled 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 identify 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 involving significant investment in research and development. 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 customer 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 identify and 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. Competition is based on design and quality of products, product performance, features and functionality, and price, with the relative importance of these factors varying among products, markets and customers. Existing or new competitors may develop products or technologies that more effectively address the demands of our customers and 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 and 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 a limited number of third-party wafer fabricators, 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 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 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 over-capacity 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, procure adequate resources, 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 or procure excessive resources 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 we 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, under-utilization of capacity or asset impairment charges.

Our semiconductor products are complex and may contain undetected defects which could result in significant costs, claims and damage to our reputation, and adversely affect the market acceptance of our products.

Semiconductor products are highly complex and may contain undetected defects when they are first introduced or as new versions are developed. We invest significant resources in the testing of our products; however, if any of our products contain defects, we may be required to incur additional development and remediation costs, pursuant to warranty and indemnification provisions in our customer contracts. These problems may divert our technical and other resources from other product development efforts and could result in claims against us by our customers or others, including liability for costs associated with product recalls. If any of our products contains defects, or has reliability, quality or compatibility problems, our reputation may be damaged, which could make it more difficult for us to sell our products to existing and prospective customers and could adversely affect our operating results.

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, mask work, 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, market and sell our products may afford little or no effective protection of our proprietary technology.

There can be 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, including 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 obligations to indemnify 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. We could be subject to warranty or product liability claims that could lead to significant costs and expenses as we defend such claims or pay damage awards. While we maintain product liability insurance, there can be no assurance that such insurance will be available or adequate to protect against all such claims. We may incur costs and expenses relating to a recall of one of our customers' products containing one of our products. See Note 12 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 our business 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 of our products worldwide. 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 2007, approximately 74% of our product 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, 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.

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 our operating results could be adversely affected.

We are subject to increasingly strict environmental regulations, which could increase our expenses and affect our operating results.

Our industry is subject to environmental regulations that control and restrict the use, transportation, emission, discharge, storage and disposal of certain chemicals used in the manufacturing process. Public attention on environmental controls has increased, and changes in environmental regulations might require us to invest in costly remediation equipment or alter the way our products are made. In addition, we use hazardous and other regulated materials that subject us to risks of liability for damages caused by accidental releases, regardless of fault. Any failure to control such materials adequately or to comply with regulatory restrictions could increase our expenses and adversely affect our operating results.

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 or our published guidance;
- 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;
- departures of key personnel;
- actual or perceived noncompliance with corporate responsibility or ethics standards by us or any of our employees, officers or directors; and
- negative media publicity targeting us or our competitors.

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.	2022	2, five-yr. periods
Cambridge, MA	Wafer fabrication, components testing and assembly engineering, marketing and administrative offices	117,000 sq. ft.	2011	None
Greensboro, NC	Engineering and administrative offices	47,600 sq. ft.	2011	1, two-yr. period

In addition to the principal leased properties listed in the above table, we also lease sales offices and other premises at 26 locations in the United States and 37 locations overseas under operating lease agreements. These leases expire at various dates through the year 2022. 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 11 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 our 2004 Form 10-K filing, we disclosed that the Securities and Exchange Commission, or SEC, had initiated an inquiry into our stock option granting practices, focusing on options that were granted shortly before the issuance of favorable financial results. On November 15, 2005, we announced that we had reached a tentative settlement with the SEC.

At all times since receiving notice of this inquiry, we have cooperated with the SEC. In November 2005, we and our President and CEO, Mr. Jerald G. Fishman, made an offer of settlement to the Staff of the SEC. The settlement has been submitted to the Commission for approval. There can be no assurance a final settlement will be so approved.

The SEC's inquiry focused on two separate issues. The first issue concerned our disclosure regarding grants of options to employees and directors prior to the release of favorable financial results. Specifically, the issue related to options granted to our employees (including officers) on November 30, 1999 and to our employees (including officers) and directors on November 10, 2000.

The second issue concerned 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 proposed settlement, we 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 in certain years. Options granted to all others 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. We and Mr. Fishman would settle this matter without admitting or denying the Commission's findings.

We have determined that no restatement of our historical financial results would be necessary due to the proposed settlement.

Other Legal Proceedings

In May 2006, we 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 our granting of stock options. We believe that the options at issue in this matter are the same option grants which have been the subject of investigation by the SEC. We have cooperated with the office of the U.S. Attorney in connection with this subpoena. We cannot predict the outcome of this matter, but believe the disposition of the matter will not have a material adverse effect on us or our financial position.

On May 25, 2006, we filed a lawsuit in United States District Court for the District of Delaware against Linear Technology Corp., or LTC, alleging infringement of three of our patents by LTC's making, selling and using various products. In our complaint, we are seeking damages in an unspecified amount and injunctive relief. In addition, we also sought a declaratory judgment that our products do not infringe eight patents allegedly owned by LTC (the "LTC patents") and that the LTC patents are invalid. On July 28, 2006, LTC filed an answer and counterclaims, denying that its products infringe the asserted patents and asking the court to declare such patents invalid. LTC also claimed that we, by making, selling and using various power management products, are infringing seven of the eight LTC patents. LTC seeks damages in an unspecified amount and injunctive relief. On August 21, 2006, we filed our answer to LTC's counterclaims, denying all liability to LTC. The case is currently in the discovery phase and trial is

scheduled to begin in October 2008. We intend to vigorously pursue our claims against LTC, and to vigorously defend against LTC's counterclaims. We are unable at this time to predict the outcome of this litigation; however, we believe that the final disposition of this matter will not have a material adverse effect on us or our financial position.

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 our Investment Partnership Plan from October 5, 2000 to the present. The complaint named as defendants us, certain officers and directors, and our Investment Partnership Plan Administration Committee. The complaint alleges purported violations of federal law in connection with our option granting practices during the years 1998, 1999, 2000, and 2001, including breaches of fiduciary duties owed to participants and beneficiaries of our Investment Partnership Plan under the Employee Retirement Income Security Act. The complaint seeks unspecified monetary damages, as well as equitable and injunctive relief. We intend to vigorously defend against these allegations. On November 22, 2006, we and the individual defendants filed motions to dismiss the complaint. On January 8, 2007, the Plaintiff filed memoranda in opposition. On January 22, 2007, we and the individual defendants filed further memoranda in support of the motions to dismiss. Although we believe we have meritorious defenses to the asserted claims, we are unable at this time to predict the outcome of this proceeding. The court has scheduled a hearing on our motion to dismiss on January 30, 2008.

From time to time in the ordinary course of our business, various claims, charges and litigation are asserted or commenced against us 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, we can give no assurance that we will prevail.

While we do not believe that any of the matters described above will have a material adverse effect on our financial position, an adverse outcome of any of these matters is possible and could have a material adverse effect on our 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 November 3, 2007.

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 our executive officers.

<u>Executive Officer</u>	<u>Age</u>	<u>Position(s)</u>	<u>Business Experience</u>
Ray Stata	73	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	61	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.
Robert R. Marshall	53	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 Matson	48	Vice President, Human Resources	Vice President, Human Resources since November 2006; Chief Human Resource Officer of Lenovo, 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.

<u>Executive Officer</u>	<u>Age</u>	<u>Position(s)</u>	<u>Business Experience</u>
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	57	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	60	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	47	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	46	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.

<u>Period</u>	<u>Fiscal 2007</u>		<u>Fiscal 2006</u>	
	<u>High</u>	<u>Low</u>	<u>High</u>	<u>Low</u>
First Quarter	\$34.53	\$31.00	\$40.40	\$34.18
Second Quarter	\$40.57	\$32.53	\$41.48	\$36.61
Third Quarter	\$41.10	\$35.11	\$37.96	\$29.89
Fourth Quarter	\$38.96	\$32.23	\$33.24	\$26.07

Dividends Declared Per Outstanding Share of Common Stock

<u>Period</u>	<u>Fiscal 2007</u>	<u>Fiscal 2006</u>
First Quarter	\$0.16	\$0.12
Second Quarter	\$0.18	\$0.12
Third Quarter	\$0.18	\$0.16
Fourth Quarter	\$0.18	\$0.16

During the first quarter of fiscal 2008, on November 26, 2007, our Board of Directors declared a cash dividend of \$0.18 per outstanding share of common stock. The dividend will be paid on December 26, 2007 to all shareholders of record at the close of business on December 7, 2007.

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

<u>Period</u>	<u>Total Number of Shares Purchased(a)</u>	<u>Average Price Paid Per Share(b)</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(c)</u>	<u>Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs</u>
August 5, 2007 through September 1, 2007	3,310,766	\$37.11	3,310,766	\$860,059,332
September 2, 2007 through September 29, 2007	3,999,188	\$36.53	3,999,036	\$713,965,692
September 30, 2007 through November 3, 2007	1,333,772	\$36.54	1,333,666	\$665,229,821
Total	8,643,726	\$36.75	8,643,468	\$665,229,821

(a) Includes 258 shares withheld to satisfy employee tax obligations upon vesting of restricted stock units granted to our employees under our equity compensation plans.

(b) The average price paid per share of stock repurchased under the stock repurchase program includes the commissions paid to the brokers.

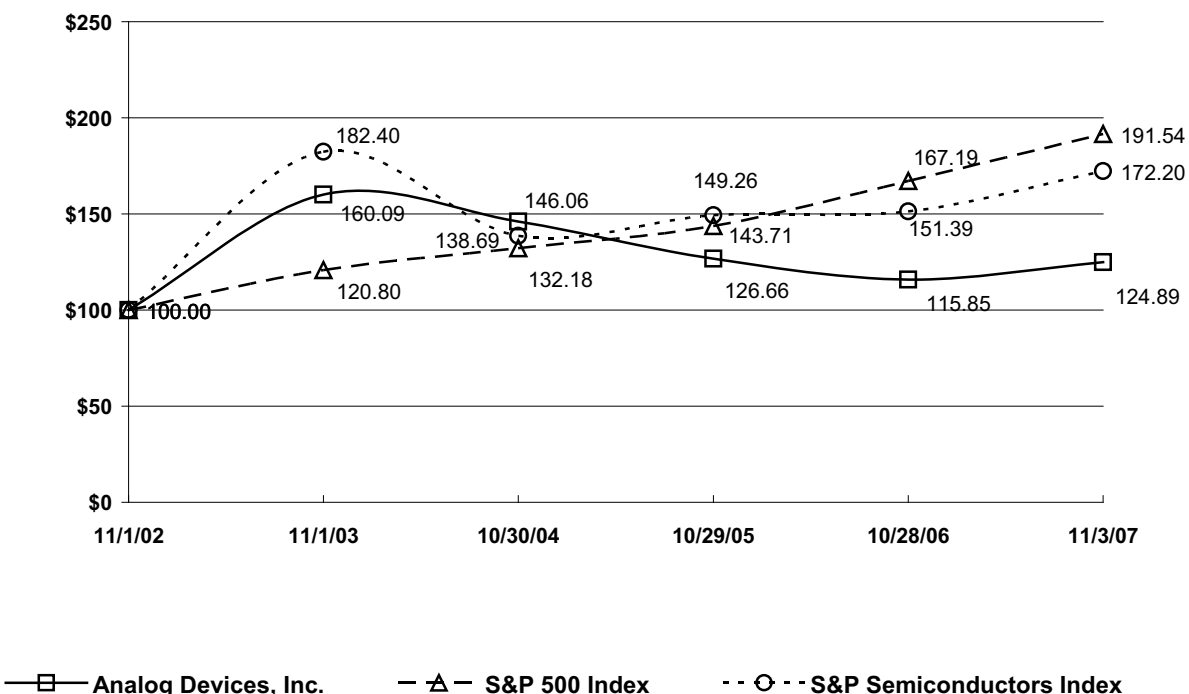
(c) Repurchased pursuant to the stock repurchase program publicly announced on August 12, 2004. On December 6, 2006, our Board of Directors authorized the repurchase by us of an additional \$1 billion of our common stock, increasing the total amount of our common stock we are authorized to repurchase from \$2 billion to \$3 billion. On June 6, 2007, 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 are authorized to repurchase from \$3 billion to \$4 billion. 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 November 2, 2007 was 3,491. This number does not include shareholders for whom shares are held in a “nominee” or “street” name. On November 2, 2007, the last reported sales price of our common stock on the New York Stock Exchange was \$32.90 per share.

Comparative Stock Performance Graph

The following graph compares cumulative total shareholder return on our common stock since November 1, 2002 with the cumulative total return for the Standard & Poor’s 500 Index and the Standard & Poor’s Semiconductors Index. This graph assumes the investment of \$100 on November 1, 2002 in our common stock, the S&P 500 Index and the S&P Semiconductors Index and assumes all dividends are reinvested. Measurement points are the last trading day for each respective fiscal year.



ITEM 6. SELECTED FINANCIAL DATA

The following table includes selected financial data for each of our last five fiscal years and includes adjustments to reflect the classification of our Baseband Chipset Business as discontinued operations. See Note 2u. in the Notes to our Consolidated Financial Statements contained in Item 8 of this Annual Report on Form 10-K for information on discontinued operations.

(thousands except per share amounts)	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Statement of Operations data:					
Total revenue from continuing operations	\$2,546,117	\$2,342,919	\$2,134,800	\$2,218,854	\$1,786,408
Net income from continuing operations*	500,695	516,314	375,944	484,327	243,092
Net (loss) income from discontinued operations*	(3,788)	33,168	38,843	86,411	55,189
Net income*	496,907	549,482	414,787	570,738	298,281
Net income per share from continuing operations*:					
Basic	1.55	1.44	1.01	1.29	0.67
Diluted	1.51	1.39	0.98	1.23	0.64
Net income per share*					
Basic	1.54	1.53	1.12	1.52	0.82
Diluted	1.50	1.48	1.08	1.45	0.78
Dividends declared per common share	0.70	0.56	0.32	0.20	—
Balance Sheet data:					
Total assets	\$2,971,949	\$3,986,851	\$4,583,211	\$4,723,271	\$4,097,877

* 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, including in particular the section entitled “Outlook” 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.

In September 2007, we entered into a definitive agreement to sell our baseband chipset business and related support operations, or Baseband Chipset Business, to MediaTek Inc. We have reflected the financial results of this business as discontinued operations in the consolidated statement of income for all years presented. The assets and liabilities of this business are reflected as assets and liabilities of discontinued operations in the consolidated balance sheets as of November 3, 2007 and October 28, 2006. Unless otherwise noted, this Management’s Discussion and Analysis relates only to financial results from continuing operations.

Results of Operations

Overview

	Fiscal Year		
	2007	2006	2005
Total Revenue	\$2,546,117	\$2,342,919	\$2,134,800
Gross Margin %	59.7%	59.9%	60.0%
Net income from Continuing Operations	\$ 500,695	\$ 516,314	\$ 375,944
Net income from Continuing Operations as a % of Total Revenue . .	19.7%	22.0%	17.6%
Diluted EPS from Continuing Operations	\$ 1.51	\$ 1.39	\$ 0.98
Diluted EPS	\$ 1.50	\$ 1.48	\$ 1.08

The year-to-year revenue changes by end market and product category is more fully outlined below under *Revenue Trends by End Market* and *Revenue Trends by Product*.

Revenue Trends by End Market

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

	2007			2006		2005	
	Revenue	% of Total Product Revenue	Y/Y%	Revenue	% of Total Product Revenue	Revenue	% of Total Product Revenue
Industrial	\$1,184,891	47%	7%	\$1,105,261	47%	\$ 952,662	45%
Communications	545,792	22%	7%	510,137	22%	475,284	22%
Consumer	544,415	22%	23%	441,871	19%	380,160	18%
Computer	236,019	9%	(17)%	285,650	12%	326,694	15%
Total Product Revenue . .	<u>\$2,511,117</u>	<u>100%</u>	7%	<u>\$2,342,919</u>	<u>100%</u>	<u>\$2,134,800</u>	<u>100%</u>
Revenue from one-time IP license	35,000			—		—	
Total Revenue	<u>\$2,546,117</u>			<u>\$2,342,919</u>		<u>\$2,134,800</u>	

Industrial — The year-to-year increase from fiscal 2006 to fiscal 2007 was primarily the result of revenue growth in products sold into the automotive area and to a lesser extent the instrumentation portion of the industrial end market. These sales increases were partially offset by a decline in sales to automatic test equipment customers. The year-to-year increase from fiscal 2005 to fiscal 2006 was a result of a broad based increase in demand for our products across a wide range of customers in this end market.

Communications — The year-to-year increase from fiscal 2006 to fiscal 2007 was the result of an increase in sales to customers in the wireless basestation and analog wireless handset end markets. The increase in sales in these end markets was partially offset by a decrease in sales to networking customers. The year-to-year increase from fiscal 2005 to fiscal 2006 was the result of an increase in sales of our products sold to customers in the wireless basestation end market and to a lesser extent, an increase in sales of our products sold into optical applications. These increases were offset by a decrease in sales to networking customers as a result of the sale of our DSP-based DSL ASIC and network processor product line, which we sold in the second quarter of fiscal 2006.

Consumer — The year-to-year increase from fiscal 2006 to fiscal 2007 was primarily the result of increased sales of our products used in video game applications, advanced television systems and digital home applications. The year-to-year increase from fiscal 2005 to fiscal 2006 was primarily the result of the success of our products in digital home applications and advanced television systems and to a lesser extent in a broad array of audio and video applications.

Computer — The year-to-year decreases in each of the last two fiscal years was the result of our decision to deemphasize power management products used in desktop and laptop computers.

Revenue from One-Time IP License — During the first quarter of fiscal 2007, we recorded revenue of \$35 million received in exchange for licensing of certain intellectual property rights to a third party.

Revenue Trends by Product

The following table summarizes revenue by product categories. 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 of, or the underlying trends of results within, each product category.

	2007			2006		2005	
	Revenue	% of Total Product Revenue	Y/Y%	Revenue	% of Total Product Revenue	Revenue	% of Total Product Revenue
Converters	\$1,106,615	44%	8%	\$1,023,499	44%	\$ 927,711	43%
Amplifiers	557,515	22%	5%	532,046	23%	445,732	21%
Power management & reference	205,497	8%	(6)%	219,651	9%	214,169	10%
Other analog	393,724	16%	27%	310,075	13%	255,385	12%
Total analog products . . .	<u>\$2,263,351</u>	<u>90%</u>	<u>9%</u>	<u>\$2,085,271</u>	<u>89%</u>	<u>\$1,842,997</u>	<u>86%</u>
General purpose DSP	214,000	9%	4%	205,483	9%	186,660	9%
Other DSP	33,766	1%	(35)%	52,165	2%	105,143	5%
Total DSP products	<u>\$ 247,766</u>	<u>10%</u>	<u>(4)%</u>	<u>\$ 257,648</u>	<u>11%</u>	<u>\$ 291,803</u>	<u>14%</u>
Total Product Revenue . .	<u>\$2,511,117</u>	<u>100%</u>	<u>7%</u>	<u>\$2,342,919</u>	<u>100%</u>	<u>\$2,134,800</u>	<u>100%</u>
Revenue from one-time IP license	35,000			—		—	
Total Revenue	<u>\$2,546,117</u>			<u>\$2,342,919</u>		<u>\$2,134,800</u>	

The significant changes in our revenue trends by product type from fiscal 2007 to fiscal 2006, and from fiscal 2006 to fiscal 2005, were the year-to-year increases in our other analog product category, primarily as a result of increased sales of products used in video game applications and continued growth in converters and amplifiers. Sales of products in the power management and reference product category were lower in fiscal 2007 as compared to fiscal 2006 as a result of our decision to deemphasize power management products used in desktop and laptop computers. The year-to-year declines from fiscal 2006 to fiscal 2007, and from fiscal 2005 to fiscal 2006, in the DSP product category were primarily attributable to the loss of revenue from our DSP-based DSL ASIC and network processor product line that we sold in the second quarter of fiscal 2006. These decreases were partially offset by an increase in revenues from our general purpose DSP products.

Revenue Trends by Geographic Region

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

<u>Region</u>	<u>Fiscal Year</u>		
	<u>2007</u>	<u>2006</u>	<u>2005</u>
United States	26%	27%	27%
Europe	24%	24%	25%
Japan	20%	20%	20%
China	13%	11%	9%
Rest of Asia*	17%	18%	19%

* The predominant countries comprising “Rest of Asia” are Taiwan and Korea.

There was no major shift in the distribution of revenue by geographic region in fiscal 2007 as compared to fiscal 2006.

Gross Margin

	Fiscal Year		
	2007	2006	2005
Gross Margin	\$1,519,217	\$1,403,166	\$1,281,315
Gross Margin %	59.7%	59.9%	60.0%

Gross margin in fiscal 2007 decreased by 20 basis points from the gross margin recorded in fiscal 2006. This decrease was primarily the result of higher sales of products used in consumer electronics, which currently earn relatively lower gross margins than our average gross margin. This decrease was partially offset by the \$35 million in revenue recorded in the first quarter of fiscal 2007 in exchange for licensing of certain intellectual property rights to a third party with no associated cost of sales. Fiscal year 2006 cost of sales also included approximately \$20.3 million of restructuring-related expenses, of which \$18.3 million was accelerated depreciation.

Gross margin in fiscal 2006 decreased by 10 basis points from the gross margin recorded in fiscal 2005. This decrease was the result of recognizing \$29.3 million of stock-based compensation expense, restructuring-related and acquisition-related expenses in cost of sales in fiscal 2006. The restructuring expense primarily related to accelerated depreciation of \$18.3 million. These increases in expenses were partially offset by an increase in utilization of our wafer fabrication facilities and increased sales of higher margin products during fiscal 2006 as compared to 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 option pricing model. The Black-Scholes option pricing 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.

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 were 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 continues 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. The vesting of options issued to our corporate officers and directors was 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.

Our income from continuing operations before income taxes and net income from continuing operations for fiscal 2007, are \$67.0 million and \$47.3 million lower, respectively, than if we had continued to account for share-based compensation under APB Opinion 25. Basic and diluted earnings per share for fiscal 2007 were \$0.15 and \$0.14 lower, respectively, than if we had continued to account for share-based compensation under APB Opinion 25. We expect that stock-based compensation related to our adoption of SFAS 123R will reduce diluted EPS by approximately \$0.03 in the first quarter of fiscal 2008.

Our income from continuing operations before income taxes and net income from continuing operations for fiscal 2006, were \$69.8 million and \$49.7 million lower, respectively, than if we had continued to account for share-based compensation under APB Opinion 25. Basic and diluted earnings per share for fiscal 2006 were \$0.14 and \$0.13 lower, respectively, than if we had continued to account for share-based compensation under APB Opinion 25.

As of November 3, 2007, the total compensation cost related to unvested awards not yet recognized in the statement of income was approximately \$144.5 million (before tax consideration), 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		
	2007	2006	2005
R&D Expenses	\$519,315	\$469,396	\$438,183
R&D Expenses as a % of Product Revenue	20.7%	20.0%	20.5%

R&D expenses for fiscal 2007 increased by \$49.9 million, or 11%, from the amount recorded in fiscal 2006. The increase in R&D expense was primarily the result of an increase in employee salary and benefit expense in fiscal 2007, primarily as a result of an increase in our employee population and to a lesser extent the impact of the extra week of operations in fiscal 2007. These increases were partially offset by lower employee bonus expense during fiscal 2007 as compared to fiscal 2006.

R&D expenses for fiscal 2006 increased by \$31.2 million, or 7%, from the amount recorded in fiscal 2005. The increase in R&D expense in fiscal 2006 was primarily the result of recognizing \$29.6 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 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)

	<u>Fiscal Year</u>		
	<u>2007</u>	<u>2006</u>	<u>2005</u>
SMG&A Expenses	\$393,221	\$387,874	\$333,091
SMG&A Expenses as a % of Product Revenue	15.7%	16.6%	15.6%

SMG&A expenses for fiscal 2007 increased by \$5.3 million, or 1%, from the levels recorded in fiscal 2006. The increase in SMG&A expenses was primarily the result of higher employee salary and benefit expense and an extra week of operations in the first quarter of fiscal 2007. These increases were partially offset by lower employee bonus expense and \$8.5 million related to the reimbursement of legal expenses we received as a result of the settlement of litigation in the second quarter of fiscal 2007.

SMG&A expenses for fiscal 2006 increased by \$54.8 million, or 16%, from the levels recorded in fiscal 2005. The increase in SMG&A expenses was primarily the result of recording \$32.6 million of stock-based compensation expense related to the adoption of SFAS 123R and higher employee salary, benefit and 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.

Purchased In-process Research and Development

	<u>Fiscal Year</u>
	<u>2006</u>
TTPCom Limited	\$ 5,500
Integrant	11,124
AudioAsics	<u>5,087</u>
Total Purchased in-Process R&D.	<u><u>\$21,711</u></u>

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 2007 or 2005. See “Acquisitions” below for additional information regarding these acquisitions.

Special Charges

Closure of Wafer Fabrication Facility in Sunnyvale

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 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 had to continue to be employed until they were involuntarily terminated in order to receive the severance benefit. We completed the final cleanup and closure activities associated with this action during the second quarter of fiscal 2007.

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 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 in lump sum payments, which reduced the benefit costs associated with these payments. We have terminated the employment of all of the remaining employees included in this action.

We ceased production at the wafer fabrication facility on November 9, 2006. During the first quarter of fiscal 2007, we recorded additional expense, in accordance with SFAS 146, *Accounting for Costs Associated with Exit or Disposal Activities*, which consisted of \$3.2 million for clean-up and closure costs that were charged to expense as incurred and \$0.4 million for lease obligation costs for a warehouse facility we ceased using during the first quarter of fiscal 2007. During the second quarter of fiscal 2007, we recorded a special charge, in accordance with SFAS 146, which included \$5.0 million of expense for future lease obligation costs for the wafer fabrication facility that we ceased using during the second quarter of fiscal 2007. Also included in this special charge was \$1.7 million for clean-up and closure costs that were charged to expense as incurred. The clean-up activity was completed during the second quarter of fiscal 2007, and we do not expect to incur any additional charges related to this action.

The closure of this facility has resulted in annual cost savings of approximately \$50 million per year beginning in fiscal 2007. These annual savings include: 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. At current demand levels, if this facility were still in operation, the capacity of the facility would be largely underutilized resulting in significant adverse manufacturing variances associated with the underutilization of our wafer fabrication facilities.

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 digital signal processing 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.

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 at this facility. The remaining \$2.3 million related 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.

During the first quarter of fiscal 2007, we recorded an additional special charge of \$1.6 million related to this reorganization action. Approximately \$0.6 million of this charge was for contract termination costs. The remaining \$1.0 million relates to severance and fringe benefit costs recorded pursuant to SFAS 88 under our ongoing benefit plan for six engineering employees.

During the second quarter of fiscal 2007, we recorded an additional special charge of \$3.4 million related to this reorganization action. Approximately \$3.2 million relates to the severance and fringe benefit costs recorded pursuant to SFAS 88 under our ongoing benefit plan or minimum statutory requirements at foreign locations for 20 engineering and selling, marketing, general and administrative employees. The remaining \$0.2 million of this charge was for lease obligation costs for a facility we ceased using during the second quarter of fiscal 2007.

During the fourth quarter of fiscal 2007, we reversed approximately \$0.9 million of our severance accrual because some employees voluntarily left the company and other employees found alternative employment within the company, and were therefore no longer entitled to severance payments.

The employment of all employees included in this action has been terminated. We do not expect to incur any further charges related to this reorganization action. These organizational changes, which were fully implemented in the fourth quarter of fiscal 2007, are expected to result in savings of approximately \$30 million per year. These savings are expected to be realized as follows: approximately \$17 million in R&D expenses, approximately \$10 million in SMG&A expenses and approximately \$3 million in cost of sales. A portion of these savings associated with these charges is reflected in our fiscal 2007 results.

Fourth Quarter of Fiscal 2007 Special Charges

Consolidation of a Wafer Fabrication Facility in Limerick

During the fourth quarter of fiscal 2007, we recorded a special charge of \$13.7 million as a result of our decision to focus the wafer fabrication capacity at our Limerick facility on eight-inch technology. Certain manufacturing processes and products produced on our six-inch production line will transition to our existing eight-inch production line in Limerick while others will transition to external foundries. The charge is for severance and fringe benefit costs recorded pursuant to SFAS 88 under our ongoing benefit plan for 150 manufacturing employees. Production is expected to cease in the six-inch wafer fabrication facility during the first half of 2009, and the affected employees will be terminated. These employees must continue to be employed until their employment is involuntarily terminated in order to receive the severance benefit. We expect to incur additional expenses related to this action during fiscal year 2009 of approximately \$6 million related to cleanup and closure costs. In accordance with SFAS 146, these costs will be expensed as incurred. The closure of this facility is estimated to result in annual cost savings of approximately \$25 million per year, expected to start during the second quarter of fiscal 2009. These annual savings will be in cost of sales, of which approximately \$1 million relates to non-cash depreciation savings.

Reduction of Overhead Infrastructure Costs

During the fourth quarter of fiscal 2007, we decided to either deemphasize or exit certain businesses or products and focus investments in products and end markets where we have better opportunities for profitable growth. In September 2007, we entered into a definitive agreement to sell our Baseband Chipset Business. As a result of these decisions, we decided to reduce the support infrastructure in manufacturing, engineering and SMG&A to more appropriately reflect our required overhead structure. Consequently, we recorded a special charge of \$12.3 million, of which \$10.7 million is for severance and fringe benefit costs recorded pursuant to SFAS 88 under our ongoing benefit plan or statutory requirements at foreign locations for 25 manufacturing employees and 127 engineering and selling, marketing, general and administrative employees. The remaining \$1.6 million is for contract termination costs related to a license agreement associated with products we will no longer develop and for which there is no future alternative use. As of November 3, 2007, 77 of the 152 employees included in this cost reduction action were still employed by us. These employees must continue to be employed until their employment is involuntarily terminated in order to receive the severance benefit. These cost reduction actions are expected to result in savings of approximately \$15 million per year once substantially completed in the second quarter of fiscal 2008. These savings are expected to be realized as follows: approximately \$7 million in R&D expenses, approximately \$6 million in SMG&A expenses and approximately \$2 million in cost of sales.

Operating Income from Continuing Operations

	<u>Fiscal Year</u>		
	<u>2007</u>	<u>2006</u>	<u>2005</u>
Operating income from Continuing Operations	\$566,186	\$522,395	\$478,561
Operating income from Continuing Operations as a % of Total Revenue	22.2%	22.3%	22.4%

Operating income increased by \$43.8 million, or 8%, in fiscal 2007 as compared to fiscal 2006. This increase was the result of a \$203.2 million increase in revenue, which was offset by a 0.2% reduction in gross margin percentage and a \$72.3 million increase in operating expenses as more fully described above under the headings *Research and Development* and *Selling, Marketing, General and Administrative, Special Charges* and *Purchased In-process Research and Development*.

The \$43.8 million, or 9%, increase in operating income in fiscal 2006 as compared to fiscal 2005 was primarily the result of a 10% increase in revenue. This increase was partially offset by \$69.8 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 as a result of our fiscal 2006 acquisitions. In addition, the special charges in fiscal 2006 were lower by \$29.7 million than the special charges recorded in fiscal 2005.

Nonoperating (Income) Expense

	<u>Fiscal Year</u>		
	<u>2007</u>	<u>2006</u>	<u>2005</u>
Interest expense	\$ —	\$ 52	\$ 27
Interest income	(77,007)	(100,169)	(71,688)
Other, net	<u>(15,727)</u>	<u>(10,472)</u>	<u>(42)</u>
Total nonoperating income	<u>\$(92,734)</u>	<u>\$(110,589)</u>	<u>\$(71,703)</u>

The \$17.9 million decrease in nonoperating income in fiscal 2007 as compared to fiscal 2006 was a result of lower invested cash balances that were partially offset by the higher interest rates in fiscal 2007 as compared to fiscal 2006. This decrease in interest income was partially offset by a \$7.9 million gain from the sale of an investment and a \$10.5 million settlement we received in fiscal 2007. In fiscal 2006, we also recognized a \$13.0 million gain on the sale of our DSP-based DSL ASIC and network processor product line.

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. Nonoperating 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.

Provision for Income Taxes

	<u>Fiscal Year</u>		
	<u>2007</u>	<u>2006</u>	<u>2005</u>
Provision for Income Taxes	\$158,444	\$117,418	\$174,320
Effective Income Tax Rate	24.0%	18.5%	31.7%

Our effective tax rate reflects the applicable tax rate in effect in the various tax jurisdictions around the world where our income is earned. Our effective tax rate for fiscal 2007 was higher by 550 basis points compared to our effective tax rate for fiscal 2006. This increase was primarily attributable to the recording of tax benefits of \$35.2 million associated with the completion of an Internal Revenue Service, or 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. The increase was also attributable to the following fiscal 2007 transactions, which were taxed at the higher U.S. tax rate: the one-time receipt of \$35 million associated with the licensing of intellectual property to a third party, the gain on the sale of an investment of \$7.9 million and the \$19 million received from the settlement of litigation. In addition, we recorded an additional \$4.4 million of taxes and penalties in fiscal 2007 for proposed adjustments related to the IRS examination of fiscal 2005 and fiscal 2004 and a \$5.6 million tax adjustment related to the finalization of the accounting associated with a fiscal 2006 acquisition. These items were partially offset by a tax benefit of \$4.7 million from the reinstatement of the U.S. federal research and development tax credit in fiscal 2007 and a \$9.9 million cumulative adjustment recorded in fiscal 2007 related to the application of this credit to a portion of our fiscal 2006 results.

The tax rate was lower in fiscal 2006 as compared to fiscal 2005 primarily due to the recording of tax benefits of \$35.2 million associated with the completion of an 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 U.S. 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, taking the benefit of current tax law allowing for earnings repatriated prior to October 29, 2005 to be taxed at a reduced effective tax rate. In connection with the repatriation of earnings, 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 changed. 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. As a result, we incurred additional income tax expense in fiscal 2005 of \$7.2 million due to the write-off of deferred tax assets associated with balances accumulated in the deferred compensation plan.

Net Income from Continuing Operations

	<u>Fiscal Year</u>		
	<u>2007</u>	<u>2006</u>	<u>2005</u>
Net income from Continuing Operations	\$500,695	\$516,314	\$375,944
Net income from Continuing Operations as a % of Total Revenue	19.7%	22.0%	17.6%
Diluted EPS from Continuing Operations	\$ 1.51	\$ 1.39	\$ 0.98

Net income from continuing operations was lower in fiscal 2007 than in fiscal 2006 by approximately \$15.6 million primarily as a result of the \$17.9 million decrease in nonoperating income and the impact of a higher effective income tax rate in fiscal 2007, partially offset by the \$43.8 million increase in operating income from continuing operations.

Net income from continuing operations increased by \$140.4 million in fiscal 2006 as compared to fiscal 2005, primarily as the result of the 10% increase in revenue, 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 \$78.0 million, primarily as a result of \$62.2 million of stock-based operating expenses related to the adoption of SFAS 123R and \$22.2 million of operating expenses related to 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.

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

Discontinued Operations

	<u>Fiscal Year</u>		
	<u>2007</u>	<u>2006</u>	<u>2005</u>
Net (loss) income from discontinued operations	\$(3,788)	\$33,168	\$38,843
Diluted (loss) earnings per share from discontinued operations	\$ (0.01)	\$ 0.09	\$ 0.10

We entered into a definitive agreement in the fourth quarter of fiscal 2007 to sell our Baseband Chipset Business to MediaTek Inc. Accordingly, these operations have been presented as a discontinued operation within the consolidated financial statements in accordance with Statement of Financial Accounting Standards No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets (SFAS 144)*. We expect to record a gain from the sale of this business upon the completion of the sale in the first quarter of fiscal 2008. We estimate this gain after taxes will be in the range of \$150 million to \$160 million.

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® baseband processors. We also acquired development rights for AJAR, TTPCom's advanced applications platform. As a result of this transaction, we became 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 TTPCom \$11.9 million in initial cash payments. 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 became due, the payments were applied against the contingent liability. 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 with the assistance of a third party using the income approach. At the time of the acquisition, the in-process technology was approximately 56% complete. As of November 3, 2007, the in-process research and development projects were complete. During fiscal 2007, we paid an additional \$6.1 million of contingent consideration, which resulted in reducing the \$1.8 million liability and recording additional goodwill of \$4.3 million. As of November 3, 2007, all technological milestones have been met and no additional payments will be made. The acquisition also included \$13.2 million of intangible assets that were being amortized over their estimated useful lives of five years using an accelerated amortization method that reflects the estimated pattern of economic use. As a result of the definitive agreement to sell our Baseband Chipset Business to MediaTek Inc., \$7.9 million and \$11.4 million of net intangible assets were reclassified to assets of discontinued operations at November 3, 2007 and October 28, 2006, respectively, as the TTPCom assets will be transferred to Media Tek Inc. as part of the transaction. See Note 2u. to our Consolidated Financial Statements contained in Item 8 of this Annual Report on Form 10-K for further information regarding assets of discontinued operations.

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 and 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 included \$4.2 million held in escrow for the purchase of the remaining non-founder outstanding shares. These shares were purchased during fiscal 2007 and were recorded as additional goodwill. The purchase price was allocated to the tangible and intangible assets acquired based on their estimated fair values at the date of acquisition. We completed the final purchase accounting for this transaction during the first quarter of fiscal 2007, which resulted in an additional \$5.6 million of goodwill. 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 will be recorded as additional purchase price. During fiscal 2007, we paid \$3.5 million to repurchase founder shares. No revenue-based milestones have been met as of November 3, 2007. 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 with the assistance of a third party using the income approach. At the time of the acquisition, the in-process technology was approximately 74% complete. As of November 3, 2007, the in-process research and development projects were complete. The acquisition also included \$21.6 million of intangible assets that are being 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 with the assistance of a third party using the income approach. At the time of the acquisition, the in-process technology was approximately 69% complete. As of November 3, 2007, the in-process research and development projects were complete. The acquisition also included \$8.3 million of intangible assets that are being amortized over their estimated useful lives of five years using an accelerated amortization method that reflects the estimated pattern of economic use. As of November 3, 2007, no contingent consideration has been paid.

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 \$302 million, \$281 million and \$224 million of products from TSMC in fiscal years 2007, 2006 and 2005, respectively. Approximately \$47 million and \$17 million were payable to TSMC as of November 3, 2007 and October 28, 2006, respectively. We anticipate that we will make significant purchases from TSMC in fiscal year 2008.

Liquidity and Capital Resources

	<u>Fiscal Year</u>		
	<u>2007</u>	<u>2006</u>	<u>2005</u>
Net Cash Provided by Operations	\$820,365	\$621,102	\$672,704
Net Cash Provided by Operations as a % of Total Revenue	32.2%	26.5%	31.5%

At November 3, 2007, cash, cash equivalents and short-term investments totaled \$1,081.2 million, a decrease of \$1,047.1 million from the end of the fourth quarter of fiscal 2006. The primary sources of funds for fiscal 2007 were net cash generated from operating activities of \$820.4 million and proceeds of \$109.1 million from our employee stock plans. The principal uses of funds during fiscal 2007 were the repurchase of approximately 45.9 million shares of our common stock for an aggregate of \$1,647.2 million, dividend payments of \$228.3 million and capital expenditures of \$141.8 million.

In the fourth quarter of fiscal 2007, we entered into a definitive agreement to sell our Baseband Chipset Business to MediaTek Inc. The cash flows from this discontinued operation have been combined with the operating, investing and financing cash flows from continuing operations (i.e. no separate classification of cash flows from discontinued operations) for all periods presented. We believe the absence of the cash flows from this discontinued operation will not have a material impact on our future liquidity and financial position. Additionally, as a result of this agreement, we reclassified certain assets and liabilities related to this business to assets or liabilities of discontinued operations. See Note 2u. to our Consolidated Financial Statements contained in Item 8 of this Annual Report on Form 10-K for further information regarding this discontinued operation.

The anticipated closure of the sale of our Baseband Chipset Business to MediaTek Inc. and the anticipated closure of the sale of our CPU voltage regulation and PC thermal monitoring business to ON Semiconductor

Corporation are expected to generate approximately \$250 million to \$270 million of cash in fiscal 2008 after the payment of all applicable taxes.

	<u>Fiscal Year</u>	
	<u>2007</u>	<u>2006</u>
Accounts Receivable	\$336,381	\$305,761
Days Sales Outstanding*	47	46
Inventory	\$347,519	\$362,945
Days Cost of Sales in Inventory*	118	133

* We use the annualized fourth quarter revenue in our calculation of days sales outstanding and we use the annualized fourth quarter cost of sales in our calculation of days cost of sales in inventory.

Accounts receivable at the end of fiscal 2007 increased by \$30.6 million, or 10%, from the amount at the end of fiscal 2006. This increase was the result of higher sales in the last month of fiscal 2007 as compared to the last month of fiscal 2006.

Inventories at the end of fiscal 2007 decreased by \$15.4 million, or 4%, from the amount at the end of fiscal 2006 and days cost of sales in inventory at the end of fiscal 2007 decreased by 15 days from the amount at the end of fiscal 2006. The decrease in inventory is a result of our continued effort to balance production, demand and inventory levels as well as the sale of inventory (valued at approximately \$19 million at October 28, 2006) which had been built during fiscal 2006 in anticipation of the closure of the Sunnyvale, California wafer fabrication facility.

Current liabilities increased to \$548.1 million at November 3, 2007, an increase of \$57.2 million, or 11.6%, from \$490.9 million at the end of fiscal 2006.

Net additions to property, plant and equipment including that related to our Baseband Chipset Business, which is reflected as a discontinued operation, were \$141.8 million in fiscal 2007, \$129.3 million in fiscal 2006 and \$85.5 million in fiscal 2005. Fiscal 2008 capital expenditures are expected to total approximately \$160 million.

During fiscal 2007, our Board of Directors declared cash dividends totaling \$0.70 per outstanding share of common stock resulting in dividend payments of \$228.3 million in fiscal 2007. 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 26, 2007, our Board of Directors declared a cash dividend of \$0.18 per outstanding share of our common stock. The dividend is payable on December 26, 2007 to shareholders of record on December 7, 2007 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. On December 6, 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 are authorized to repurchase from \$2 billion to \$3 billion. On June 6, 2007, 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 are authorized to repurchase from \$3 billion to \$4 billion. 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 2007, we repurchased approximately \$1,647.2 million of our common stock under this plan. As of November 3, 2007, we had \$665.2 million of authorized repurchases remaining under our repurchase program. We plan to continue to repurchase shares during fiscal 2008. The timing and number of shares repurchased can not be reasonably estimated at this time; however, from the end of fiscal year 2007 through November 26, 2007, we repurchased approximately 4.6 million shares for approximately \$151 million.

The table below summarizes our contractual obligations as of November 3, 2007:

(thousands)	Total	Less than 1 Year	Payment due by period		More than 5 Years
			1-3 Years	4-5 Years	
Contractual obligations:					
Operating leases ^a	\$ 91,478	\$30,774	\$39,173	\$9,272	\$12,259
Deferred compensation plan ^b	36,553	1,233	1,233	—	34,087
Pension funding ^c	7,993	7,993	—	—	—
Total	<u>\$136,024</u>	<u>\$40,000</u>	<u>\$40,406</u>	<u>\$9,272</u>	<u>\$46,346</u>

- (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 2008. 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 November 3, 2007, our principal source of liquidity was \$1,081.2 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 November 3, 2007, 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. Unless specifically mentioned, 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. Upon entering into the definitive agreement to sell our CPU Voltage regulator and PC thermal monitoring

business on November 8, 2007, the assets of this business met the held-for-sale criteria, and will therefore be reclassified as discontinued operations during the first quarter of fiscal 2008. This business generated approximately \$25 million of sales in the fourth quarter of fiscal 2007. Therefore, once we reclassify the \$25 million of revenue to discontinued operations, our fourth quarter revenue will be \$623 million. On this basis, we expect product sales from continuing operations in the first quarter of fiscal 2008 to be approximately \$610 million to \$635 million. Gross margin percentage is planned to be up slightly in the first quarter of fiscal 2008 as compared to the fourth quarter of fiscal 2007. Diluted EPS is planned to be approximately \$0.38 to \$0.42 for the first quarter of fiscal 2008.

As previously announced, we also expect to close on the sales of two businesses in the first quarter of fiscal 2008. The estimated gains on these sales are not reflected in the estimates above. We expect to realize a gain, net of tax, of between approximately \$150 million and \$160 million related to the sale of our Baseband Chipset Business to MediaTek Inc. We also expect to recognize a gain, net of taxes of between approximately \$52 million and \$60 million related to the sale of our CPU voltage regulation and PC thermal monitoring business. The gains on both of these sales will be included in income from discontinued operations.

New Accounting Pronouncements

Accounting for Financial Assets and Financial Liabilities

In February 2007, the Financial Accounting Standards Board (FASB), issued Statement of Financial Accounting Standard (SFAS) 159, *The Fair Value Option for Financial Assets and Financial Liabilities — Including an amendment of FASB Statement No. 115* (SFAS 159). SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. SFAS 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007, which is our fiscal year 2009 that begins on November 2, 2008. We are currently evaluating the impact, if any, that SFAS 159 may have on our financial condition and results of operations.

Fair Value Measurements

In September 2006, the FASB issued SFAS 157, *Fair Value Measurements* (SFAS 157). SFAS 157 provides enhanced guidance for using fair value to measure assets and liabilities. The standard also responds to investors' requests for expanded information about the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value and the effect of fair value measurements on earnings. SFAS 157 applies whenever other standards require or permit assets or liabilities to be measured at fair value. This standard does not expand the use of fair value in any new circumstances. SFAS 157 is effective for fiscal years beginning after November 15, 2007, which is our fiscal year 2009 that begins on November 2, 2008. We are currently evaluating the impact that SFAS 157 may have on our financial condition and results of operations.

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 on each of the company's balance sheet and statement of operations and the related financial statement disclosures. SAB 108 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. The adoption of SAB 108 in the first quarter of fiscal 2007 did not have any impact on our financial condition or results of operations.

Accounting for Defined Benefit Pension and Other Postretirement Plans

In September 2006, the FASB issued 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 was effective for us at the end of fiscal 2007, except for the change in measurement date, which is effective for us in fiscal 2009. The adoption of SFAS 158 in the fourth quarter of fiscal 2007 did not have a material impact on our financial condition or results of operations.

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 or results of operations.

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 United States generally accepted accounting principles. 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 based on 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 net realizable value of inventory. While a portion of the calculation is determined via reference to the age of inventory and lower of cost or market calculations, an element 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 adjustments to 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 November 3, 2007, we had gross deferred tax assets of \$210.9 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 \$46.8 million valuation allowance is needed to reserve the amount of the deferred tax assets that may not be realized due to the expiration of certain 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 in the impacted state jurisdictions 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 required 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 for fiscal 2005 and thereafter 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. Historical volatility during the period commensurate with the expected term of our stock options over the past several years included a period of time when 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, and as such, 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. In evaluating the appropriateness of exclusively relying on implied volatility we concluded that: (1) options in the Company's common stock are actively traded with sufficient volume on several exchanges; (2) the market prices of both the traded options and the underlying shares are measured at a similar point in time to each other and on a date close to the grant date of the employee share options; (3) the traded options have exercise prices that are both near-the-money and close to the exercise price of the employee share options; and (4) the maturities of the traded options used to estimate volatility are at least one year.

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. Based on an analysis of our historical forfeitures, we have applied an annual forfeiture rate of 4.3% to all unvested stock-based awards as of November 3, 2007. The rate of 4.3% represents the portion that is expected to be forfeited each year over the vesting period. This analysis is re-evaluated quarterly and the forfeiture rate is adjusted as necessary. Ultimately, the actual expense recognized over the vesting period will only be for those awards 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. If a loss is 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. If the judgments and estimates made by us are incorrect, we may need to record additional contingent losses that could materially adversely impact our results of operations. See Note 12 in the Notes to our Consolidated Financial Statements contained in Item 8 of this Annual Report on Form 10-K for additional information regarding our commitments and contingencies.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Exposure

Based on our marketable securities and short term investments outstanding as of November 3, 2007 and October 28, 2006, our annual interest income would change by approximately \$9 million and \$16 million, respectively, for each 100 basis point increase or decrease in interest rates. The fair values of our investment portfolio at November 3, 2007 and October 28, 2006 would change by approximately \$2 million and \$6 million, respectively, for each 100 basis point increase or decrease in rates.

Foreign Currency Exposure

As more fully described in Note 2i. 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 fair values of these instruments were approximately \$7 million at November 3, 2007 and were insignificant at October 28, 2006. Currently, our largest foreign currency exposure is the Euro, primarily because our European operations have the highest proportion of our local currency denominated expenses. Relative to foreign currency exposures existing at November 3, 2007 and October 28, 2006, a 10% unfavorable movement in foreign currency exchange rates would not expose us to significant losses in earnings or cash flows because we hedge substantially all of our year-end exposures against fluctuations in foreign currency exchange rates. For contracts outstanding at November 3, 2007, a 10% unfavorable movement in foreign currency exchange rates from the rates as of our 2007 fiscal year end would increase the fair value of our foreign currency financial instruments by approximately \$24 million and a 10% favorable movement in foreign currency exchange rates would decrease their fair value by approximately \$9 million. As at October 28, 2006, a 10% movement in foreign currency exchange rates from the rates as of our 2006 fiscal year end would not expose us to significant gains or losses in the contracts' fair values. 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 November 3, 2007, October 28, 2006 and October 29, 2005

(thousands, except per share amounts)	<u>2007</u>	<u>2006</u>	<u>2005</u>
Revenue			
Product revenue	\$2,511,117	\$2,342,919	\$2,134,800
Revenue from one-time IP license	<u>35,000</u>	<u>—</u>	<u>—</u>
Total Revenue	2,546,117	2,342,919	2,134,800
Costs and Expenses			
Cost of sales(1)	<u>1,026,900</u>	<u>939,753</u>	<u>853,485</u>
Gross margin	1,519,217	1,403,166	1,281,315
Operating expenses:			
Research and development(1)	519,315	469,396	438,183
Selling, marketing, general and administrative(1)	393,221	387,874	333,091
Purchased in-process research and development	—	21,711	—
Special charges	<u>40,495</u>	<u>1,790</u>	<u>31,480</u>
	953,031	880,771	802,754
Operating income from continuing operations	566,186	522,395	478,561
Nonoperating (income) expenses:			
Interest expense	—	52	27
Interest income	(77,007)	(100,169)	(71,688)
Other, net	<u>(15,727)</u>	<u>(10,472)</u>	<u>(42)</u>
	<u>(92,734)</u>	<u>(110,589)</u>	<u>(71,703)</u>
Earnings			
Income from continuing operations before income taxes and minority interest	658,920	632,984	550,264
Provision for income taxes:			
Payable currently	161,294	145,872	159,716
Deferred	<u>(2,850)</u>	<u>(28,454)</u>	<u>14,604</u>
	158,444	117,418	174,320
Minority interest	<u>219</u>	<u>748</u>	<u>—</u>
Net income from continuing operations	<u>500,695</u>	<u>516,314</u>	<u>375,944</u>
Net (loss) income from discontinued operations	<u>(3,788)</u>	<u>33,168</u>	<u>38,843</u>
Net income	<u>\$ 496,907</u>	<u>\$ 549,482</u>	<u>\$ 414,787</u>
Shares used to compute earnings per share — Basic	323,255	358,762	371,791
Shares used to compute earnings per share — Diluted	332,301	370,964	383,474
Earnings per share — Basic			
Net income from continuing operations	\$ 1.55	\$ 1.44	\$ 1.01
Net income	\$ 1.54	\$ 1.53	\$ 1.12
Earnings per share — Diluted			
Net income from continuing operations	\$ 1.51	\$ 1.39	\$ 0.98
Net income	\$ 1.50	\$ 1.48	\$ 1.08
Dividends declared per share	\$ 0.70	\$ 0.56	\$ 0.32
(1) Includes stock-based compensation expense as follows:			
Cost of sales	\$ 10,591	\$ 7,630	\$ —
Research and development	29,893	31,119	4,870
Selling, marketing, general and administrative	27,544	32,604	—

See accompanying Notes.

ANALOG DEVICES, INC.
CONSOLIDATED BALANCE SHEETS
November 3, 2007 and October 28, 2006

(thousands, except per share amounts)	<u>2007</u>	<u>2006</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 424,972	\$ 343,947
Short-term investments	656,235	1,784,387
Accounts receivable less allowances of \$3,611 (\$2,533 in 2006)	336,381	305,761
Inventories(1)	347,519	362,945
Deferred tax assets	111,682	91,045
Deferred compensation plan investments	1,233	1,109
Prepaid expenses and other current assets	50,130	82,770
Current assets of discontinued operations	50,843	39,338
Total current assets	<u>1,978,995</u>	<u>3,011,302</u>
Property, Plant and Equipment, at Cost		
Land and buildings	372,162	353,912
Machinery and equipment	1,414,316	1,347,986
Office equipment	76,802	77,001
Leasehold improvements	62,883	107,524
	<u>1,926,163</u>	<u>1,886,423</u>
Less accumulated depreciation and amortization	1,369,224	1,331,482
Net property, plant and equipment	<u>556,939</u>	<u>554,941</u>
Other Assets		
Deferred compensation plan investments	35,210	30,579
Other investments	1,692	850
Goodwill	279,469	256,209
Intangible assets, net	24,153	31,441
Deferred tax assets	52,491	54,734
Other assets	43,000	27,744
Non-current assets of discontinued operations	—	19,051
Total other assets	<u>436,015</u>	<u>420,608</u>
	<u>\$2,971,949</u>	<u>\$3,986,851</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	\$ 159,086	\$ 122,926
Deferred income on shipments to distributors	151,730	146,723
Income taxes payable	65,690	60,956
Deferred compensation plan liability	1,233	1,109
Accrued liabilities	150,543	145,913
Current liabilities of discontinued operations	19,769	13,316
Total current liabilities	<u>548,051</u>	<u>490,943</u>
Noncurrent Liabilities		
Deferred income taxes	10,146	3,414
Deferred compensation plan liability	35,320	30,633
Other noncurrent liabilities	40,291	25,851
Total noncurrent liabilities	<u>85,757</u>	<u>59,898</u>
Minority interest	—	217
Commitments and contingencies (Note 12)		
Shareholders' Equity		
Preferred stock, \$1.00 par value, 471,934 shares authorized, none outstanding	—	—
Common stock, \$0.16 $\frac{2}{3}$ par value, 1,200,000,000 shares authorized, 303,354,180 shares issued and outstanding (342,000,004 on October 28, 2006)	50,560	57,001
Capital in excess of par value	—	—
Retained earnings	2,253,483	3,378,999
Accumulated other comprehensive income (loss)	34,098	(207)
Total shareholders' equity	<u>2,338,141</u>	<u>3,435,793</u>
	<u>\$2,971,949</u>	<u>\$3,986,851</u>

(1) Includes \$3,371 and \$3,703 related to stock-based compensation at November 3, 2007 and October 28, 2006, respectively.

See accompanying Notes.

ANALOG DEVICES, INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
Years ended November 3, 2007, October 28, 2006 and October 29, 2005

(thousands)	<u>Common Stock</u>		<u>Capital in</u>	<u>Retained</u>	<u>Accumulated</u>
	<u>Shares</u>	<u>Amount</u>	<u>Excess of</u>	<u>Earnings</u>	<u>Other</u>
			<u>Par Value</u>		<u>Comprehensive</u>
					<u>Income(Loss)</u>
BALANCE, OCTOBER 30, 2004	375,840	\$62,641	\$ 759,551	\$ 2,973,631	\$ 3,749
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	<u>(14,624)</u>	<u>(2,437)</u>	<u>(523,056)</u>		
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	<u>(30,666)</u>	<u>(5,111)</u>	<u>(781,419)</u>	<u>(238,452)</u>	
BALANCE, OCTOBER 28, 2006	<u>342,000</u>	<u>57,001</u>	<u>—</u>	<u>3,378,999</u>	<u>(207)</u>
Activity in Fiscal 2007					
Net Income — 2007				496,907	
Dividends declared and paid				(228,281)	
Issuance of stock under stock plans and other, net of repurchases	7,291	1,215		107,934	
Tax benefit-stock options				65,131	
Stock-based compensation expense				72,349	
Adoption of FAS 158					10,361
Other comprehensive income					23,944
Common stock repurchased	<u>(45,937)</u>	<u>(7,656)</u>	<u>—</u>	<u>(1,639,556)</u>	
BALANCE, NOVEMBER 3, 2007	<u>303,354</u>	<u>\$50,560</u>	<u>\$ —</u>	<u>\$ 2,253,483</u>	<u>\$ 34,098</u>

See accompanying Notes.

ANALOG DEVICES, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Years ended November 3, 2007, October 28, 2006 and October 29, 2005

(thousands)	<u>2007</u>	<u>2006</u>	<u>2005</u>
Net income from continuing operations	\$500,695	\$516,314	\$375,944
Foreign currency translation adjustment	10,640	5,838	(1,595)
Minimum pension liability adjustment (net of taxes of \$640 in 2007, \$753 in 2006 and \$1,324 in 2005)	1,495	1,398	(2,461)
Net unrealized gains (losses) on securities:			
Net unrealized holding gains (losses) (net of taxes of \$2,746 in 2007, \$4,034 in 2006 and \$6,239 in 2005) on securities classified as short- term investments	5,094	7,492	(11,586)
Net unrealized holding (losses) gains (net of taxes of \$100 in 2007, \$235 in 2006 and \$500 in 2005) on securities classified as other investments	<u>(185)</u>	<u>(436)</u>	<u>(930)</u>
Net unrealized gains (losses) on securities	<u>4,909</u>	<u>7,056</u>	<u>(12,516)</u>
Derivative instruments designated as cash flow hedges:			
Changes in fair value of derivatives	6,128	4,876	(4,718)
Realized loss (gain) reclassification	<u>772</u>	<u>(111)</u>	<u>(1,723)</u>
Net change in derivative instruments designated as cash flow hedges	<u>6,900</u>	<u>4,765</u>	<u>(6,441)</u>
Other comprehensive income (loss)	<u>23,944</u>	<u>19,057</u>	<u>(23,013)</u>
Comprehensive income from continuing operations	<u>\$524,639</u>	<u>\$535,371</u>	<u>\$352,931</u>
Net (loss) income from discontinued operations	<u>(3,788)</u>	<u>33,168</u>	<u>38,843</u>
Comprehensive income	<u><u>\$520,851</u></u>	<u><u>\$568,539</u></u>	<u><u>\$391,774</u></u>

As a result of adopting the recognition principles of SFAS 158 on November 3, 2007, the Company recorded a \$10.4 million adjustment, net of tax of \$1.4 million, to accumulated other comprehensive income. In accordance with the requirements of SFAS 158, this adjustment has been excluded from the above presentation of comprehensive income for fiscal year 2007.

See accompanying Notes.

ANALOG DEVICES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended November 3, 2007, October 28, 2006 and October 29, 2005

(thousands)	2007	2006	2005
Operations			
Cash flows from operations:			
Net income	\$ 496,907	\$ 549,482	\$ 414,787
Adjustments to reconcile net income to net cash provided by operations:			
Depreciation	142,173	166,851	153,181
Amortization of intangibles	12,610	5,312	2,383
Stock-based compensation expense	72,652	75,429	4,870
Gain on sale of investments	(7,919)	—	—
Minority interest	(219)	(748)	—
Non-cash portion of special charges	438	459	—
Gain on sale of product line	—	(13,027)	—
Purchased in-process research and development	—	21,711	—
Other non-cash expense	853	784	1,822
Excess tax benefit — stock options	(40,871)	(181,178)	—
Tax benefit — stock options	—	—	50,374
Deferred income taxes	(2,850)	(28,454)	14,604
Change in operating assets and liabilities:			
(Increase) decrease in accounts receivable	(27,011)	(6,705)	5,298
Decrease (increase) in inventories	16,549	(52,043)	22,797
Decrease (increase) in prepaid expenses and other current assets	34,890	(17,327)	(7,320)
(Increase) decrease in investments — trading	(4,755)	245,629	41,234
Increase (decrease) in accounts payable, deferred income and accrued liabilities	53,693	5,682	(5,937)
Increase (decrease) in deferred compensation plan liability	4,811	(247,291)	(43,271)
Increase in income taxes payable	53,119	96,336	15,003
Increase in other liabilities	15,295	200	2,879
Total adjustments	323,458	71,620	257,917
Net cash provided by operations	820,365	621,102	672,704
Investing Activities			
Cash flows from investing:			
Additions to property, plant and equipment, net	(141,810)	(129,297)	(85,457)
Purchases of short-term available-for-sale investments	(1,807,476)	(2,483,123)	(3,457,017)
Maturities of short-term available-for-sale investments	2,943,468	2,788,717	3,526,871
Proceeds from sale of investment	8,003	—	—
Proceeds from sale of property, plant and equipment	—	1,735	—
Proceeds from sale of product line	—	23,070	—
Payments for acquisitions	(9,160)	(157,017)	—
(Increase) decrease in other assets	(8,438)	723	5,644
Net cash provided (used) by investing activities	984,587	44,808	(9,959)
Financing Activities			
Cash flows from financing activities:			
Dividend payments to shareholders	(228,281)	(201,451)	(118,998)
Repurchase of common stock	(1,647,212)	(1,024,982)	(525,493)
Proceeds from employee stock plans	109,149	94,392	89,402
Excess tax benefit — stock options	40,871	181,178	—
Net cash used by financing activities	(1,725,473)	(950,863)	(555,089)
Effect of exchange rate changes on cash	1,546	1,309	995
Net increase (decrease) in cash and cash equivalents	81,025	(283,644)	108,651
Cash and cash equivalents at beginning of year	343,947	627,591	518,940
Cash and cash equivalents at end of year	\$ 424,972	\$ 343,947	\$ 627,591

See accompanying Notes.

ANALOG DEVICES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended November 3, 2007, October 28, 2006 and October 29, 2005

(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. The Company’s products are embedded inside electronics that people come into contact with every day. 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 including 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 year 2007 was a 53-week period. Fiscal years 2006 and 2005 were 52-week periods.

In September 2007, the Company entered into a definitive agreement to sell its baseband chipset business and related support operations, or Baseband Chipset Business, to MediaTek Inc. Accordingly, the Company’s consolidated financial statements and related footnote disclosures have been restated for all reporting periods presented to reflect the results of these operations as discontinued operations, and unless otherwise noted, discussions in these notes pertain to the Company’s continuing operations. See Note 2u. for additional information on the Company’s discontinued operations.

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 and institutional money market funds.

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

ANALOG DEVICES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

deferred compensation plan investments are classified as trading. See Note 7 for additional information on the Company's deferred compensation plan investments. 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.

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>2007</u>	<u>2006</u>	<u>2005</u>
Unrealized gains	\$ 6	\$ —	\$ 532
Unrealized losses	<u>(79)</u>	<u>(7,908)</u>	<u>(19,967)</u>
Net unrealized losses	<u>\$(73)</u>	<u>\$(7,908)</u>	<u>\$(19,435)</u>

Unrealized gains and losses in all fiscal years presented relate solely to U.S. Government Treasury and agency 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 November 3, 2007 and October 28, 2006. 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 November 3, 2007 and October 28, 2006 were as follows:

	<u>2007</u>	<u>2006</u>
Cash and cash equivalents:		
Cash	\$ 30,034	\$ 42,944
Available-for-sale:		
Institutional money market funds	152,013	42,803
Corporate obligations.	89,250	104,925
Held-to-maturity:		
Euro time deposits.	<u>153,675</u>	<u>153,275</u>
Total cash and cash equivalents	<u>\$424,972</u>	<u>\$ 343,947</u>
Short-term investments:		
Securities with one year or less to maturity:		
Corporate obligations.	\$527,278	\$ 856,196
U.S. Government Treasury, agency and municipal notes	<u>128,957</u>	<u>801,821</u>
Total maturities less than 1 year.	<u>656,235</u>	<u>1,658,017</u>
Securities with greater than one year to maturity:		
U.S. Government Treasury, agency and municipal bonds.	<u>—</u>	<u>126,370</u>
Total maturities greater than 1 year	<u>—</u>	<u>126,370</u>
Total short-term investments	<u>\$656,235</u>	<u>\$1,784,387</u>

ANALOG DEVICES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

c. Supplemental Cash Flow Statement Information

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Cash paid during the fiscal year for:			
Income taxes	\$102,349	\$61,099	\$93,185
Interest	\$ —	\$ 32	\$ 27

The Company's primary non-cash financing activities in fiscal 2006 and 2005 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 \$0.5 million in fiscal 2006 and \$3.6 million in fiscal 2005.

d. Inventories

Inventories are valued at the lower of cost (first-in, first-out method) or market. The valuation of inventory requires the Company to estimate obsolete or excess inventory as well as inventory that is not of saleable quality. The Company employs a variety of methodologies to determine the net realizable value of its inventory. While a portion of the calculation to record inventory at its net realizable value is based on the age of the inventory and lower of cost or market calculations, a key factor in estimating obsolete or excess inventory requires the company to estimate the future demand for its products. If actual demand is less than the Company's estimates, impairment charges, which are recorded to cost of sales, may need to be recorded in future periods. Inventory in excess of saleable amounts is not valued, and the remaining inventory is valued at the lower of cost or market.

Inventories at November 3, 2007 and October 28, 2006 were as follows:

	<u>2007</u>	<u>2006</u>
Raw materials	\$ 15,127	\$ 16,430
Work in process	241,728	255,233
Finished goods	90,664	91,282
Total inventories	<u>\$347,519</u>	<u>\$362,945</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. 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

Depreciation expense from continuing operations of property, plant and equipment was \$139 million, \$165 million and \$151 million in fiscal 2007, 2006 and 2005, 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

ANALOG DEVICES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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.

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 2007. 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 2008 unless indicators arise that would require the Company to reevaluate at an earlier date. The following table presents the changes in goodwill during fiscal 2007 and 2006:

	2007	2006
Balance at beginning of year	\$256,209	\$163,373
Acquisition of TTPCom(1)	4,273	812
Acquisition of Integrant Technologies(2)	13,282	80,641
Acquisition of AudioAsics	—	7,250
Foreign currency translation adjustment	5,705	4,133
Balance at end of year	\$279,469	\$256,209

- (1) The Company paid its final milestone related to this acquisition in the second quarter of fiscal 2007.
- (2) The Company completed the final purchase accounting for this transaction during the first quarter of fiscal 2007, which resulted in an additional \$5.6 million of goodwill. The Company also purchased additional outstanding minority shares related to this acquisition during fiscal 2007, which resulted in an additional \$7.7 million of goodwill.

Intangible Assets

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

During fiscal 2006, the Company purchased certain assets from TTPCom Limited (TTPCom), substantially all of the shares of Integrant Technologies, Inc. and all of the shares of AudioAsics A/S (AudioAsics). See Note 6 for additional information on the Company's fiscal 2006 acquisitions. As a result of these acquisitions, the Company

ANALOG DEVICES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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>	

* Acquired Integrand customer relationship intangible assets are amortized over two years and acquired TTPCom and AudioAsics customer relationship intangible assets are amortized over five years.

In connection with the sale of the Baseband Chipset Business to MediaTek Inc., net intangible assets of \$7.9 million and \$11.4 million acquired from TTPCom Limited were reclassified to assets of discontinued operations in fiscal 2007 and fiscal 2006, respectively. See Note 2u. for additional information on assets of discontinued operations.

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

	<u>November 3, 2007</u>		<u>October 28, 2006</u>	
	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>
Technology-based	\$43,626	\$23,303	\$41,577	\$16,104
Tradename	1,687	1,403	1,635	995
Customer relationships	5,798	2,470	5,320	484
Other	6,582	6,364	6,617	6,125
Total	<u>\$57,693</u>	<u>\$33,540</u>	<u>\$55,149</u>	<u>\$23,708</u>

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 1.6 years. The \$43.1 million of intangible assets acquired during 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 from continuing operations, related to intangibles was \$9.2 million, \$3.5 million and \$2.4 million in fiscal 2007, 2006 and 2005, respectively.

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

<u>Fiscal Years</u>	<u>Amortization Expense</u>
2008	\$9,556
2009	\$7,377
2010	\$4,694
2011	\$2,334
2012	\$ 192

ANALOG DEVICES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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 income (loss). 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 2007, 2006 or 2005.

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 Euro; other exposures include Philippine Peso, British Pounds Sterling and Japanese Yen. 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 primarily in Euro and other currencies including Philippine Peso, British Pounds Sterling and Japanese Yen. The contracts 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

ANALOG DEVICES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

ineffectiveness, is recognized immediately in other income/expense. Ineffectiveness was immaterial in fiscal 2007, 2006 and 2005.

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.

Accumulated Derivative Gains or Losses

The following table summarizes activity in accumulated other comprehensive income (loss) related to derivatives classified as cash flow hedges held by the Company during the period from October 30, 2005 through November 3, 2007:

	<u>2007</u>	<u>2006</u>
Balance at beginning of year	\$ 419	\$(4,346)
Changes in fair value of derivatives — gain (loss)	6,128	4,876
Reclassifications into earnings from other comprehensive income	<u>772</u>	<u>(111)</u>
Balance at end of year	<u>\$7,319</u>	<u>\$ 419</u>

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

ANALOG DEVICES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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.

	November 3, 2007		October 28, 2006	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets:				
Cash and cash equivalents	\$424,972	\$424,972	\$ 343,947	\$ 343,947
Short-term investments	656,235	656,235	1,784,387	1,784,387
Deferred compensation investments	36,443	36,443	31,688	31,688
Other investments	1,692	1,692	850	850
Foreign Currency Instruments & Interest Rate Agreements:				
Interest rate swap and cap agreements	—	—	77	77
Forward foreign currency exchange contracts	6,924	6,924	272	272

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 prices or are determined using a yield curve model based on current market rates.

Deferred compensation plan investments and other investments — The fair value of these investments is based on quoted market prices, 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.

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.

ANALOG DEVICES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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, a large portion of the Company's external wafer purchase and foundry services are from a limited number of suppliers, primarily Taiwan Semiconductor Manufacturing Company (TSMC). If TSMC or any of the Company's other key suppliers are unable or unwilling to manufacture and deliver sufficient quantities of components, on the time schedule and of the quality that the Company requires, the Company may be forced to seek to engage additional or replacement suppliers, which could result in significant expenses and disruptions or delays in manufacturing, product development and shipment of product to the Company's customers. Although the Company has experienced shortages of components, materials and external foundry services from time to time, these items have generally been available to the Company as needed.

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. During the first quarter of fiscal 2007, the Company recorded revenue of \$35 million received in exchange for licensing of certain intellectual property rights to a third party.

Shipping costs are charged to cost of sales as incurred.

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 2007, 2006 and 2005 were not material.

ANALOG DEVICES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

o. Accumulated Other Comprehensive Income (Loss)

Other comprehensive income (loss) includes certain transactions that have generally been reported in the consolidated statement of shareholders' equity. The components of accumulated other comprehensive income (loss) at November 3, 2007 and October 28, 2006 consisted of the following:

	2007	2006
Accumulated other comprehensive income — pension plans:		
Prior service cost	\$ (13)	\$ —
Transition asset	28	—
Net actuarial gain	7,172	—
Minimum pension liability adjustments	—	(4,669)
Unrealized losses on available-for-sale securities	(462)	(5,371)
Foreign currency translation	20,054	9,414
Unrealized gains on derivative instruments	7,319	419
Total accumulated other comprehensive income (loss)	\$34,098	\$ (207)

p. Advertising Expense

Advertising costs are expensed as incurred. Advertising expense from continuing operations was \$10.2 million in fiscal 2007, \$10.9 million in fiscal 2006 and \$10.5 million in fiscal 2005.

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:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Net income from continuing operations	\$500,695	\$516,314	\$375,944
Net (loss) income from discontinued operations	\$ (3,788)	\$ 33,168	\$ 38,843
Net income	<u>\$496,907</u>	<u>\$549,482</u>	<u>\$414,787</u>
Basic shares:			
Weighted-average shares outstanding	<u>323,255</u>	<u>358,762</u>	<u>371,791</u>
Earnings per share-basic:			
Net income from continuing operations	\$ 1.55	\$ 1.44	\$ 1.01
Net (loss) income from discontinued operations	\$ (0.01)	\$ 0.09	\$ 0.10
Net income(1)	<u>\$ 1.54</u>	<u>\$ 1.53</u>	<u>\$ 1.12</u>
Diluted shares:			
Weighted-average shares outstanding	323,255	358,762	371,791
Assumed exercise of common stock equivalents	<u>9,046</u>	<u>12,202</u>	<u>11,683</u>
Weighted-average common and common equivalent shares	<u>332,301</u>	<u>370,964</u>	<u>383,474</u>
Earnings per share-diluted:			
Net income from continuing operations	\$ 1.51	\$ 1.39	\$ 0.98
Net (loss) income from discontinued operations	\$ (0.01)	\$ 0.09	\$ 0.10
Net income(1)	<u>\$ 1.50</u>	<u>\$ 1.48</u>	<u>\$ 1.08</u>
Weighted-average anti-dilutive shares related to:			
Outstanding stock options	49,915	52,054	46,452

(1) The sum of the individual per share amounts may not equal due to rounding.

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 and fiscal 2007 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.

ANALOG DEVICES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

t. New Accounting Standards

Accounting for Financial Assets and Financial Liabilities

In February 2007, the Financial Accounting Standards Board (FASB), issued Statement of Financial Accounting Standard (SFAS) 159, *The Fair Value Option for Financial Assets and Financial Liabilities — Including an amendment of FASB Statement No. 115* (SFAS 159). SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. SFAS 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007, which is the Company's fiscal year 2009 that begins on November 2, 2008. The Company is currently evaluating the impact, if any that SFAS 159 may have on the Company's financial condition and results of operations.

Fair Value Measurements

In September 2006, the FASB issued SFAS 157, "*Fair Value Measurements.*" SFAS 157 provides enhanced guidance for using fair value to measure assets and liabilities. The standard also responds to investors' requests for expanded information about the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value and the effect of fair value measurements on earnings. SFAS 157 applies whenever other standards require or permit assets or liabilities to be measured at fair value. This standard does not expand the use of fair value in any new circumstances. SFAS 157 is effective for fiscal years beginning after November 15, 2007, which is the Company's fiscal year 2009 that begins on November 2, 2008. The Company is currently evaluating the impact, if any that SFAS 157 will have on the Company's financial condition and results of operations.

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. The adoption of SAB 108 did not have any impact on the Company's financial conditions or results of operations.

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 or results of operations.

ANALOG DEVICES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

u. Discontinued Operations

In September 2007, the Company entered into a definitive agreement to sell its Baseband Chipset Business to MediaTek Inc. The Company expects to complete the sale in the first quarter of 2008 for approximately \$350 million in cash. The decision to sell the Baseband Chipset Business was due to the Company's decision to focus its resources in areas where its signal processing expertise can provide unique capabilities and earn superior returns. In accordance with the provisions of SFAS 144, *Accounting for the Impairment or Disposal of Long-Lived Assets (SFAS 144)*, the Company determined that the Baseband Chipset Business became a long-lived asset held for sale in the fourth quarter of 2007. SFAS 144 provides that a long-lived asset classified as held for sale should be measured at the lower of its carrying amount or fair value less cost to sell. Since the carrying value of the Baseband Chipset Business at November 3, 2007 was less than the estimated fair value less cost to sell, no adjustment to the carrying value of this long-lived asset was necessary during the year ended November 3, 2007. In accordance with the provisions of SFAS 144, the Company ceased the amortization of the Baseband Chipset Business' intangible assets and the depreciation of the Baseband Chipset Business' property and equipment in the fourth quarter of fiscal 2007.

Also, in accordance with the provisions of SFAS 144, the Company determined that the Baseband Chipset Business became a discontinued operation in the fourth quarter of fiscal 2007. Accordingly, the assets and liabilities and operating results of the Baseband Chipset Business have been segregated from the consolidated balance sheets and continuing operations in the consolidated statements of income for all periods presented. Because the Baseband Chipset Business' cash flows were not material for any period presented, they have not been segregated on the consolidated statements of cash flows.

The following table summarizes the results from discontinued operations for the periods indicated:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Total Revenue	\$193,710	\$230,257	\$254,008
Cost of sales	127,510	127,283	152,483
Operating expenses:			
Research and development	71,215	67,351	58,914
Selling, marketing, general and administrative	<u>6,923</u>	<u>6,212</u>	<u>5,185</u>
(Loss) income before income taxes	<u>(11,938)</u>	<u>29,411</u>	<u>37,426</u>
Benefit from income taxes	<u>(8,150)</u>	<u>(3,757)</u>	<u>(1,417)</u>
Net (loss) income from discontinued operations	<u>\$ (3,788)</u>	<u>\$ 33,168</u>	<u>\$ 38,843</u>

ANALOG DEVICES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	<u>November 3, 2007</u>	<u>October 28, 2006</u>
Accounts receivable, net	\$21,971	\$23,632
Inventory	14,456	15,706
Property, plant and equipment, net.	6,496	—
Intangibles, net	<u>7,920</u>	<u>—</u>
Total assets reclassified to current assets of discontinued operations	<u>\$50,843</u>	<u>\$39,338</u>
Property, plant and equipment, net.	\$ —	\$ 7,684
Intangibles, net	<u>—</u>	<u>11,367</u>
Total assets reclassified to non-current assets of discontinued operations	<u>\$ —</u>	<u>\$19,051</u>
Accounts Payable	\$11,117	\$ 1,640
Deferred Income on shipments to distributors	659	2,820
Accrued Liabilities	<u>7,993</u>	<u>8,856</u>
Total liabilities reclassified to current liabilities of discontinued operations	<u>\$19,769</u>	<u>\$13,316</u>

3. Stock-Based Compensation and Shareholders' Equity

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 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.

ANALOG DEVICES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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 33⅓% 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 final offering period began June 1, 2005 and ended on June 1, 2006; therefore, June 1, 2005 was 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 final 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.

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>2007</u>	<u>2006</u>	<u>2005</u>
Options granted (in thousands)	7,691	8,752	12,904
Weighted-average exercise prices stock options	\$33.52	\$38.65	\$ 37.60
Weighted-average grant date fair-value stock options	\$ 9.50	\$11.60	\$ 10.85
Weighted-average grant date fair-value ESPP	NA	NA	\$ 9.52
Assumptions:			
Weighted-average expected volatility	30.45%	28.7%	27.4%
Weighted-average expected term (in years)	5.1	5.0	5.0
Risk-free interest rate	4.61%	4.4%	3.6%
Expected dividend yield	2.2%	1.3%	0.68%

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. 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, and as such, 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. In evaluating the appropriateness of exclusively relying on implied volatility the Company concluded that: (1) options in the Company's common stock are actively traded with sufficient volume on several exchanges; (2) the market prices of both the traded options and the underlying shares are measured at a similar point in time to each other and on a date close to the grant date of the employee share options; (3) the traded options

ANALOG DEVICES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

have exercise prices that are both near-the-money and close to the exercise price of the employee share options; and (4) the maturities of the traded options used to estimate volatility are at least one year.

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.

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 ratably 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. Based on an analysis of its historical forfeitures, the Company has applied an annual forfeiture rate of 4.3% to all unvested stock-based awards as of November 3, 2007. The rate of 4.3% represents the portion that is expected to be forfeited each year over the vesting period. 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 requisite 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 had the following impact on fiscal 2007 results: operating profit from continuing operations before tax was lower by \$67.0 million, net income from continuing operations was lower by

ANALOG DEVICES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

\$47.3 million, cash flow from operations was lower by \$40.9 million, cash flow from financing activities was higher by \$40.9 million and basic and diluted EPS were lower by \$0.15 and \$0.14, respectively.

The adoption of SFAS 123R on October 30, 2005 had the following impact on fiscal 2006 results: operating profit from continuing operations before tax was lower by \$69.8 million, net income from continuing operations was lower by \$49.7 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 \$0.14 and \$0.13, respectively.

The following table details the effect on net income and earnings per share had stock-based compensation expense been recorded for fiscal 2005 based on the fair-value method under SFAS 123:

	<u>2005</u>
Net income, as reported	\$ 414,787
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	3,796
Deduct: Total stock-based compensation expense determined under the fair value based method for all awards, net of related tax Effects	<u>(305,350)</u>
Pro forma net income	<u>\$ 113,233</u>
Earnings per share:	
Basic — as reported	<u>\$ 1.12</u>
Basic — pro forma	<u>\$ 0.30</u>
Diluted — as reported	<u>\$ 1.08</u>
Diluted — pro forma	<u>\$ 0.29</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. The vesting of options issued to its corporate officers and directors was 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.

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 November 3, 2007 and changes during the fiscal year then ended is presented below:

	<u>Options Outstanding</u>	<u>Weighted- Average Exercise Price Per Share</u>	<u>Weighted- Average Remaining Contractual Term in Years</u>	<u>Aggregate Intrinsic Value</u>
Options outstanding at October 28, 2006	84,461	\$34.09		
Options granted	7,691	\$33.52		
Options exercised	(7,252)	\$15.06		
Options forfeited	(1,896)	\$35.34		
Options expired	<u>(2,846)</u>	\$43.80		
Options outstanding at November 3, 2007	<u>80,158</u>	\$35.39	5.2	\$261,239
Options exercisable at November 3, 2007	<u>56,189</u>	\$34.79	4.0	\$258,717
Options vested or expected to vest at November 3, 2007(1)	<u>78,649</u>	\$35.36	5.1	\$261,619

(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 2007 was \$152.6 million and the total amount of cash received by the Company from exercise of these options was \$109.1 million. The total grant-date fair value of stock options that vested during fiscal 2007 was approximately \$72.8 million.

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 and restricted stock unit award activity as of November 3, 2007 and changes during the year then ended is presented below:

	<u>Restricted Shares or Units Outstanding</u>	<u>Weighted- Average Grant Date Fair Value Per Share</u>
Restricted shares and units outstanding at October 28, 2006	55	\$35.35
Awards granted	39	\$34.89
Restrictions lapsed	(15)	\$36.12
Awards forfeited	<u>—</u>	—
Restricted shares and units outstanding at November 3, 2007	<u>79</u>	\$34.97

As of November 3, 2007, there was \$144.5 million of total unrecognized compensation cost related to unvested share-based awards comprised of 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 Company's stock option plans is set forth below:

<u>Stock Award Activity</u>	<u>Shares Available for Grant</u>	<u>Restricted Awards Outstanding</u>		<u>Options Outstanding</u>	
		<u>Number</u>	<u>Weighted-Average Grant Date Fair-Value Per Share</u>	<u>Number</u>	<u>Weighted-Average Price Per Share</u>
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 cancelled	<u>2,512</u>	<u>—</u>	<u>—</u>	<u>(2,512)</u>	38.57
Balance, October 29, 2005	<u>23,457</u>	<u>—</u>	<u>\$ —</u>	<u>85,489</u>	<u>\$32.75</u>
Shares authorized for 2006 Stock Incentive Plan	15,000	—	—	—	—
Shares cancelled 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 cancelled	<u>4,398</u>	<u>—</u>	<u>—</u>	<u>(4,398)</u>	40.04
Balance, October 28, 2006	<u>17,970</u>	<u>55</u>	<u>\$35.35</u>	<u>84,461</u>	<u>\$34.09</u>
Shares cancelled upon termination of stock plans	(5)	—	—	—	—
Restricted awards granted(1)	(118)	39	34.89	—	—
Restrictions lapsed	—	(15)	36.12	—	—
Options granted	(7,691)	—	—	7,691	33.52
Options exercised	—	—	—	(7,252)	15.06
Options cancelled	<u>4,742</u>	<u>—</u>	<u>—</u>	<u>(4,742)</u>	40.42
Balance, November 3, 2007	<u>14,898</u>	<u>79</u>	<u>\$34.97</u>	<u>80,158</u>	<u>\$35.39</u>

(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 November 3, 2007, a total of 95,135,367 common shares were reserved for issuance under the Company's stock option plans.

Common Stock Repurchase Program

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

ANALOG DEVICES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

common stock. On December 6, 2006, the Board of Directors authorized the repurchase by the Company of an additional \$1 billion of common stock, increasing the total amount of common stock the Company is authorized to repurchase from \$2 billion to \$3 billion. On June 6, 2007, the Board of Directors authorized the repurchase of an additional \$1 billion of common stock, increasing the total amount of common stock the Company is authorized to repurchase from \$3 billion to \$4 billion. 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 45.9 million shares for approximately \$1,647.2 million during fiscal 2007. As of November 3, 2007, the Company had repurchased approximately 95.1 million shares of its common stock for approximately \$3,334.8 million under this program and an additional \$665.2 million remains under the current authorized program. The repurchased shares are held as authorized but unissued shares of common stock. The Company plans to continue to repurchase shares during fiscal 2008. The timing and number of shares repurchased can not be reasonably estimated at this time; however, from the end of fiscal year 2007 through November 26, 2007, the Company repurchased approximately 4.6 million shares for approximately \$151 million.

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*.

Revenue Trends by End Market

The categorization of revenue 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. When

ANALOG DEVICES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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

	2007			2006		2005	
	Revenue	% of Total Product Revenue	Y/Y%	Revenue	% of Total Product Revenue	Revenue	% of Total Product Revenue
Industrial	\$1,184,891	47%	7%	\$1,105,261	47%	\$ 952,662	45%
Communications	545,792	22%	7%	510,137	22%	475,284	22%
Consumer	544,415	22%	23%	441,871	19%	380,160	18%
Computer	236,019	9%	(17)%	285,650	12%	326,694	15%
Total Product Revenue	<u>\$2,511,117</u>	<u>100%</u>	7%	<u>\$2,342,919</u>	<u>100%</u>	<u>\$2,134,800</u>	<u>100%</u>
Revenue from one-time IP license	35,000			—		—	
Total Revenue	<u>\$2,546,117</u>			<u>\$2,342,919</u>		<u>\$2,134,800</u>	

Revenue Trends by Product

The following table summarizes revenue by product categories. The categorization of the Company's 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 the Company reclassifies the amounts in the product categories for all prior periods. Such reclassifications typically do not materially change the sizing of, or the underlying trends of results within, each product category.

	2007			2006		2005	
	Revenue	% of Total Product Revenue	Y/Y%	Revenue	% of Total Product Revenue	Revenue	% of Total Product Revenue
Converters	\$1,106,615	44%	8%	\$1,023,499	44%	\$ 927,711	43%
Amplifiers	557,515	22%	5%	532,046	23%	445,732	21%
Power management & reference	205,497	8%	(6)%	219,651	9%	214,169	10%
Other analog	393,724	16%	27%	310,075	13%	255,385	12%
Total analog products . . .	<u>\$2,263,351</u>	<u>90%</u>	9%	<u>\$2,085,271</u>	<u>89%</u>	<u>\$1,842,997</u>	<u>86%</u>
General purpose DSP	214,000	9%	4%	205,483	9%	186,660	9%
Other DSP	33,766	1%	(35)%	52,165	2%	105,143	5%
Total DSP products	<u>\$ 247,766</u>	<u>10%</u>	(4)%	<u>\$ 257,648</u>	<u>11%</u>	<u>\$ 291,803</u>	<u>14%</u>
Total Product Revenue . .	<u>\$2,511,117</u>	<u>100%</u>	7%	<u>\$2,342,919</u>	<u>100%</u>	<u>\$2,134,800</u>	<u>100%</u>
Revenue from one-time IP license	35,000			—		—	
Total Revenue	<u>\$2,546,117</u>			<u>\$2,342,919</u>		<u>\$2,134,800</u>	

ANALOG DEVICES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Geographic Information

The Company operates in the following major geographic areas. Product revenue data is based upon customer location and property, plant and equipment data is based upon physical location. The predominant countries comprising European operations are Ireland, United Kingdom, France and Germany. The predominant countries comprising Rest of Asia are Taiwan and Korea.

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Product Revenue from continuing operations			
United States	\$ 643,087	\$ 643,066	\$ 579,071
Europe	599,288	554,046	532,456
Japan	511,488	468,967	423,220
China	328,073	266,425	199,796
Rest of Asia	<u>429,181</u>	<u>410,415</u>	<u>400,257</u>
Subtotal all foreign countries	<u>1,868,030</u>	<u>1,699,853</u>	<u>1,555,729</u>
Total product revenue	<u>\$2,511,117</u>	<u>\$2,342,919</u>	<u>\$2,134,800</u>
Property, plant and equipment			
United States	\$ 226,270	\$ 231,519	\$ 265,243
Ireland	183,075	190,050	209,205
Philippines	133,388	123,786	112,245
All other countries	<u>14,206</u>	<u>9,586</u>	<u>6,532</u>
Subtotal all foreign countries	<u>330,669</u>	<u>323,422</u>	<u>327,982</u>
Total property, plant and equipment	<u>\$ 556,939</u>	<u>\$ 554,941</u>	<u>\$ 593,225</u>

ANALOG DEVICES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

5. Special Charges

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

<u>Income Statement</u>	<u>Closure of Wafer Fabrication Facility in Sunnyvale</u>	<u>Reorganization of Product Development and Support Programs</u>	<u>Consolidation of a Wafer Fabrication Facility in Limerick(1)</u>	<u>Reduction of Overhead Infrastructure Costs</u>	<u>Total Special Charges</u>
Fiscal 2005 Charges:					
Workforce reductions	\$20,315	\$11,165	\$ —	\$ —	\$31,480
Total Fiscal 2005 Charges	<u>\$20,315</u>	<u>\$11,165</u>	<u>\$ —</u>	<u>\$ —</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>\$ —</u>	<u>\$ —</u>	<u>\$ 1,790</u>
Fiscal 2007 Charges:					
Facility closure costs	10,288	—	—	—	10,288
Workforce reductions	—	4,165	13,748	10,711	28,624
Other items	—	859	—	1,637	2,496
Change in estimate	—	(913)	—	—	(913)
Total Fiscal 2007 Charges	<u>\$10,288</u>	<u>\$ 4,111</u>	<u>\$13,748</u>	<u>\$12,348</u>	<u>\$40,495</u>
Accrued Restructuring					
Balance at October 29, 2005	<u>\$ 20,315</u>	<u>\$10,708</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 31,023</u>
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	<u>\$ 5,903</u>	<u>\$ 4,976</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 10,879</u>
Fiscal 2007 special charges	10,288	4,111	13,748	12,348	40,495
Severance payments	(5,573)	(4,717)	—	(767)	(11,057)
Facility closure costs	(6,616)	(23)	—	—	(6,639)
Non-cash impairment charge	—	—	—	(438)	(438)
Other items	—	(596)	—	—	(596)
Effect of foreign currency translation on accrual	—	18	—	3	21
Balance at November 3, 2007	<u>\$ 4,002</u>	<u>\$ 3,769</u>	<u>\$13,748</u>	<u>\$11,146</u>	<u>\$ 32,665</u>

(1) Production is expected to cease in the six-inch wafer fabrication facility during the first half of fiscal year 2009. Therefore, the severance benefits for this action are recorded as other non-current liabilities in the consolidated balance sheet.

ANALOG DEVICES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Closure of Wafer Fabrication Facility in Sunnyvale

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 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 the Company's 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 had to continue to be employed until they were involuntarily terminated in order to receive the severance benefit. The Company completed the final cleanup and closure activities associated with this action during the second quarter of fiscal 2007.

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 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 in lump sum payments, which reduced the benefit costs associated with these payments. The employment of all of the remaining employees included in this action has been terminated by the Company.

The Company ceased production at the wafer fabrication facility on November 9, 2006. During the first quarter of fiscal 2007, the Company recorded additional expense, in accordance with SFAS 146, *Accounting for Costs Associated with Exit or Disposal Activities*, which consisted of \$3.2 million for clean-up and closure costs that were charged to expense as incurred and \$0.4 million for lease obligation costs for a warehouse facility the Company ceased using during the first quarter of fiscal 2007. During the second quarter of fiscal 2007, the Company recorded a special charge, in accordance with SFAS 146, which included \$5.0 million of expense for future lease obligation costs for the wafer fabrication facility that the Company ceased using during the second quarter of fiscal 2007. Also included in the special charge was \$1.7 million for clean-up and closure costs that were charged to expense as incurred. The clean-up activity was completed during the second quarter of fiscal 2007, and the Company does not expect to incur any additional charges related to this action.

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 digital signal processing product programs. The charge was for severance and fringe benefit costs that were recorded pursuant to SFAS 88 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.

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 facility. The remaining \$2.3 million related to severance and fringe benefit costs that were recorded in the fourth quarter of fiscal 2006 pursuant to SFAS 88 under the Company's ongoing benefit plan or statutory requirements at foreign locations for 46 engineering and selling, marketing, general and administrative employees.

During the first quarter of fiscal 2007, the Company recorded an additional special charge of \$1.6 million related to this reorganization action. Approximately \$0.6 million of this charge was for contract termination costs.

ANALOG DEVICES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The remaining \$1.0 million relates to severance and fringe benefit costs recorded pursuant to SFAS 88 under the Company's ongoing benefit plan for six engineering employees.

During the second quarter of fiscal 2007, the Company recorded an additional special charge of \$3.4 million related to this reorganization action. Approximately \$3.2 million relates to the severance and fringe benefit costs recorded pursuant to SFAS 88 under the Company's ongoing benefit plan or minimum statutory requirements at foreign locations for 20 engineering and selling, marketing, general and administrative employees. The remaining \$0.2 million of this charge was for lease obligation costs for a facility the Company ceased using during the second quarter of fiscal 2007.

During the fourth quarter of fiscal 2007, the Company reversed approximately \$0.9 million of the Company's severance accrual because some employees voluntarily left the Company and other employees found alternative employment within the Company, and were therefore no longer entitled to severance payments.

The employment of all employees included in this action has been terminated. The Company does not expect to incur any further charges related to this reorganization action.

Fourth Quarter of Fiscal 2007 Special Charges

Consolidation of a Wafer Fabrication Facility in Limerick

During the fourth quarter of fiscal 2007, the Company recorded a special charge of \$13.7 million as a result of the Company's decision to focus the wafer fabrication capacity at its Limerick facility on eight-inch technology. Certain manufacturing processes and products produced on the six-inch production line will transition to the existing eight-inch production line in Limerick while others will transition to external foundries. The charge was for severance and fringe benefit costs recorded pursuant to SFAS 88 under the Company's ongoing benefit plan for 150 manufacturing employees. Production is expected to cease in the six-inch wafer fabrication facility during the first half of fiscal year 2009, and the affected employees will be terminated. These employees must continue to be employed until their employment is involuntarily terminated in order to receive the severance benefit. The Company expects to incur additional expenses related to this action during fiscal year 2009 of approximately \$6 million related to clean-up and closure costs. In accordance with SFAS 146, these costs will be expensed as incurred.

Reduction of Overhead Infrastructure Costs

During the fourth quarter of fiscal 2007, the Company decided to either deemphasize or exit certain businesses or products and focus investments in products and end markets where the Company has better opportunities for profitable growth. In September 2007, the Company entered into a definitive agreement to sell its Baseband Chipset Business. As a result of these decisions the Company decided to reduce the support infrastructure in manufacturing, engineering and SMG&A to more appropriately reflect the required overhead structure of the Company. Consequently, the Company recorded a special charge of \$12.3 million, of which \$10.7 million is for severance and fringe benefit costs recorded pursuant to SFAS 88 under the Company's ongoing benefit plan or statutory requirements at foreign locations for 25 manufacturing employees and 127 engineering and selling, marketing, general and administrative employees. The remaining \$1.6 million is for contract termination costs related to a license agreement associated with products the Company will no longer develop and for which there is no future alternative use. These actions are expected to be substantially completed in the second quarter of fiscal 2008.

As of November 3, 2007, 77 of the 152 employees included in this reorganization action were still employed by the Company. These employees must continue to be employed until their employment is involuntarily terminated in order to receive the severance benefit.

ANALOG DEVICES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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 became 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 TTPCom \$11.9 million in initial cash payments. 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 became due, the payments were applied against the contingent liability. 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 with the assistance of a third party using the income approach. At the time of the acquisition, the in-process technology was approximately 56% complete. As of November 3, 2007, the in-process research and development projects were complete. During fiscal 2007, we paid an additional \$6.1 million of contingent consideration, which resulted in reducing the \$1.8 million liability and recording additional goodwill of \$4.3 million. As of November 3, 2007, all technological milestones have been met and no additional payments will be made. The acquisition also included \$13.2 million of intangible assets (see Note 2f.) that were being amortized over their estimated useful lives of five years using an accelerated amortization method that reflects the estimated pattern of economic use. As a result of the Company's definitive agreement to sell its Baseband Chipset Business to MediaTek Inc., \$7.9 million and \$11.4 million of net intangible assets were reclassified to assets of discontinued operations at November 3, 2007 and October 28, 2006, respectively, as the TTPCom assets will be transferred to MediaTek Inc. as part of the transaction. See Note 2u. for additional information on assets of discontinued operations.

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 and 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 included \$4.2 million held in escrow for the purchase of the remaining non-founder outstanding shares. These shares were purchased during fiscal 2007 and were recorded as additional goodwill. The purchase price was allocated to the tangible and intangible assets acquired based on their estimated fair values at the date of acquisition. The Company completed the final purchase accounting for this transaction during the first quarter of fiscal 2007, which resulted in an additional \$5.6 million of goodwill. 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 will be recorded as additional purchase price. During fiscal 2007, the Company paid \$3.5 million to repurchase founder shares. No revenue-based milestones have been met as of November 3, 2007. 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,

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

DVB-H, RFID and WiBro applications. The fair value of the in-process technology was determined with the assistance of a third party using the income forecast approach. At the time of the acquisition, the in-process technology was approximately 74% complete. As of November 3, 2007, the in-process research and development projects were complete. The acquisition also included \$21.6 million of intangible assets (see Note 2f.) that are being 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 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 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 with the assistance of a third party using the income approach. At the time of the acquisition, the in-process technology was approximately 69% complete. As of November 3, 2007, the in-process research and development projects were complete. The acquisition also included \$8.3 million of intangible assets (see Note 2f.) that are being amortized over their estimated useful lives of five years using an accelerated amortization method that reflects the estimated pattern of economic use. As of November 3, 2007, no contingent consideration has been paid.

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.

7. Deferred Compensation Plan Investments

Deferred compensation plan investments are classified as trading and the components of the investments as of November 3, 2007 and October 28, 2006 were as follows:

	<u>2007</u>	<u>2006</u>
Corporate obligations	\$21,670	\$18,883
Money market funds	3,858	3,039
Mutual funds	<u>10,915</u>	<u>9,766</u>
Total deferred compensation plan investments — short and long term	<u>\$36,443</u>	<u>\$31,688</u>

The fair values of these investments are based on published market quotes on November 3, 2007 and October 28, 2006, 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 2007, 2006 or 2005.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Investments are offset by a corresponding liability to the plan participants (see Note 10). 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, or on a cost-basis, dependent on the nature of the investment, as appropriate. Adjustments to the 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.

Realized gains of \$7.9 million were recorded in fiscal 2007 related to the sale of a cost-basis investment. There were no realized gains or losses recorded in fiscal 2006 or 2005.

Long-term marketable investments are classified as available-for-sale. Unrealized losses of \$0.3 million (\$0.2 million net of tax) were recorded in fiscal 2007, unrealized losses of \$0.7 million (\$0.4 million net of tax) were recorded in fiscal 2006 and unrealized losses of \$1.4 million (\$0.9 million net of tax) were recorded in fiscal 2005.

9. Accrued Liabilities

Accrued liabilities at November 3, 2007 and October 28, 2006 consisted of the following:

	2007	2006
Accrued compensation and benefits	\$ 77,019	\$ 80,160
Special charges	18,917	10,879
Other	54,607	54,874
Total accrued liabilities	\$150,543	\$145,913

10. 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 \$0.3 million in fiscal 2007, \$1.0 million in fiscal 2006 and \$9.9 million in fiscal 2005. 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 the Deferred Compensation Plan as a result of participant terminations or at the direction of the participants. This amount represented compensation and/or

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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.

11. Lease Commitments

The Company leases certain of its facilities, equipment and software under various operating leases that expire at various dates through 2022. 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 \$43 million in fiscal 2007, \$45 million in fiscal 2006 and \$44 million in fiscal 2005.

The following is a schedule of future minimum rental payments required under long-term operating leases at November 3, 2007:

<u>Fiscal Years</u>	<u>Operating Leases</u>
2008	\$30,774
2009	\$25,906
2010	\$13,267
2011	\$ 5,430
2012	\$ 3,842
Later Years	<u>\$12,259</u>
Total	<u><u>\$91,478</u></u>

12. Commitments and Contingencies

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

In the Company's 2004 Form 10-K filing, 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.

At all times since receiving notice of this inquiry, the Company has cooperated with the SEC. In November 2005, the Company and its President and CEO, Mr. Jerald G. Fishman, made an offer of settlement to the Staff of the SEC. The settlement has been submitted to the Commission for approval. There can be no assurance a final settlement will be so approved.

The SEC's inquiry focused on two separate issues. The first issue concerned the Company's disclosure regarding grants of options to employees and directors prior to the release of favorable financial results. Specifically, the issue related 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 second issue concerned 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).

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

In connection with the proposed 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 in certain years. Options granted to all others 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.

Other Legal Proceedings

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 has cooperated 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 May 25, 2006, the Company filed a lawsuit in United States District Court for the District of Delaware against Linear Technology Corp., or LTC, alleging infringement of three Company patents by LTC's making, selling and using various products. In the Company's complaint, it is seeking damages in an unspecified amount and injunctive relief. In addition, the Company also sought a declaratory judgment that its products do not infringe eight patents allegedly owned by LTC (the "LTC patents") and that the LTC patents are invalid. On July 28, 2006, LTC filed an answer and counterclaims, denying that its products infringe the asserted Company patents and asking the court to declare such patents invalid. LTC also claimed that the Company, by making, selling and using various power management products, is infringing seven of the eight LTC patents. LTC seeks damages in an unspecified amount and injunctive relief. On August 21, 2006, the Company filed its answer to LTC's counterclaims, denying all liability to LTC. The case is currently in the discovery phase and trial is scheduled to begin in October 2008. The Company intends to vigorously pursue its claims against LTC, and to vigorously defend against LTC's counterclaims. 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 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. On November 22, 2006, the Company and the individual defendants filed motions to dismiss the complaint. On January 8, 2007, the Plaintiff filed memoranda in opposition. On January 22, 2007, the Company and the individual defendants filed further memoranda in support of the motions to dismiss. 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. The court has scheduled a hearing on the Company's motion to dismiss on January 30, 2008.

From time to time in the ordinary course 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,

ANALOG DEVICES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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.

13. Maxim Litigation Settlement

The Company executed a legal settlement with Maxim Integrated Products, Inc. (Maxim) during the second quarter of fiscal 2007, which resulted in the Company receiving \$19 million. The Company recorded \$8.5 million as a credit to legal expense in selling, marketing, general and administrative expense because this amount represents the fair value of external legal costs incurred by the Company in this matter. The remaining \$10.5 million has been recorded in other income because the amount was not related to the reimbursement of external legal costs and management deems it to be an isolated event. This amount is earned in full because the Company has no future obligation to Maxim with respect to this payment.

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 \$21.0 million in fiscal 2007, \$22.1 million in fiscal 2006 and \$21.6 million in fiscal 2005. 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 \$17.3 million in fiscal 2007, \$15.7 million in fiscal 2006 and \$12.1 million in fiscal 2005.

Effective for fiscal year 2007, the Company adopted the provisions of SFAS 158, *Employers' Accounting for Defined Benefit Pension and other Postretirement Plans — an amendment of FASB Statement No. 87, 88, 106 and 132(R)* (SFAS 158) in the fourth quarter of fiscal 2007. SFAS 158 requires that the funded status of defined-benefit post retirement plans be recognized on the company's consolidated balance sheets, and changes in the funded status be reflected in comprehensive income. SFAS 158 also requires the measurement date of the plan's funded status to be the same as the company's fiscal year end, which will be effective for the Company in fiscal 2009.

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, 2007 and September 30, 2006.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Service cost	\$10,890	\$10,572	\$ 8,231
Interest cost	8,862	7,214	6,521
Expected return on plan assets	(9,584)	(7,097)	(7,307)
Amortization of prior service cost	8	116	185
Amortization of transitional asset	(39)	(27)	69
Recognized actuarial loss	<u>804</u>	<u>1,548</u>	<u>648</u>
Net periodic pension cost	<u>\$10,941</u>	<u>\$12,326</u>	<u>\$ 8,347</u>
Curtailment impact	\$ —	\$ 81	\$ —
Settlement impact	\$ 85	\$ —	\$ —
Special termination benefits	\$ 207	\$ 1,394	\$ —

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

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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:

	<u>2007</u>	<u>2006</u>
Change in Benefit Obligation		
Benefit obligation at beginning of year	\$177,975	\$163,230
Service cost	10,890	10,572
Interest cost	8,862	7,214
Curtailment	(1,297)	—
Settlement	(6,894)	—
Special termination benefits	207	1,394
Participant contributions	2,811	2,310
Premiums Paid	(201)	(188)
Actuarial loss	(28,348)	(10,807)
Benefits paid	(4,037)	(3,370)
Exchange rate adjustment	20,803	7,620
Benefit obligation at end of year	<u>\$180,771</u>	<u>\$177,975</u>
Change in Plan Assets		
Fair value of plan assets at beginning of year	\$135,944	\$108,091
Actual return on plan assets	11,326	12,100
Employer contributions	10,793	11,228
Participant contributions	2,811	2,310
Settlements	(6,894)	—
Premiums Paid	(201)	(188)
Benefits paid	(4,037)	(3,370)
Exchange rate adjustment	18,063	5,773
Fair value of plan assets at end of year	<u>\$167,805</u>	<u>\$135,944</u>
Reconciliation of Funded Status		
Unfunded status	\$ (12,966)	\$ (42,031)
Contribution between September 30 and fiscal year end	581	2,404
Unrecognized transition obligation	N/A	(19)
Unrecognized actuarial loss	N/A	25,131
Unrecognized prior service cost	N/A	25
Net amount recognized	<u>\$ (12,385)</u>	<u>\$ (14,490)</u>
Amounts Recognized in the Balance Sheet		
<i>For years prior to adoption of the funded status provisions of SFAS 158</i>		
Prepaid benefit cost	N/A	\$ —
Accrued benefit liability	N/A	(21,698)
Intangible asset	N/A	25
Accumulated other comprehensive income	N/A	7,183
Net amount recognized	<u>N/A</u>	<u>\$ (14,490)</u>
<i>For years after the adoption of the funded status provisions of SFAS 158</i>		
Noncurrent assets	\$ 10,114	N/A
Current liabilities	(757)	N/A
Noncurrent liabilities	(21,742)	N/A
Net amount recognized	<u>\$ (12,385)</u>	<u>N/A</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	2007	2006
Reconciliation of Amounts Recognized in the Statement of Financial Position		
Initial net obligation	\$ (19)	N/A
Prior service cost	(19)	N/A
Net gain	6,824	N/A
Accumulated other comprehensive income	6,786	N/A
Accumulated contributions in excess of net periodic benefit cost	(19,171)	N/A
Net amount recognized	\$ (12,385)	N/A
Estimated amounts that will be amortized from accumulated other comprehensive income over the next fiscal year		
Initial net asset	\$ 42	
Prior service cost	(8)	
Net loss	(220)	
Total	\$ (186)	
Other comprehensive income attributable to change in additional minimum liability recognition prior to adoption of SFAS 158	\$ (2,135)	\$ (2,151)
Increase in accumulated other comprehensive income (before tax) to reflect the adoption of SFAS 158	\$ (11,834)	

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 \$46.4 million, \$40.1 million, and \$24.3 million respectively, at September 30, 2007 and \$49.6 million, \$41.9 million, and \$24.2 million respectively, at September 30, 2006.

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:

	2007	2006
Discount rate	5.64%	4.79%
Rate of increase in compensation levels	3.83%	3.70%
Expected long-term return on plan assets	7.14%	6.71%

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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Expected fiscal 2008 Company contributions and estimated future benefit payments are as follows:

Expected Company Contributions

2008 \$ 7,993

Expected Benefit Payments

2008 \$ 3,209
 2009 \$ 3,224
 2010 \$ 2,421
 2011 \$ 4,750
 2012 \$ 4,671
 2013-2017 \$31,004

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

	2007	Strategic Target
Equities	68.69%	69.00%
Bonds	26.46%	27.00%
Cash	0.62%	0.00%
Property	4.23%	4.00%
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.

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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

15. Income Taxes

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

	<u>2007</u>	<u>2006</u>	<u>2005</u>
U.S. federal statutory tax rate	35.0%	35.0%	35.0%
Income tax provision reconciliation:			
Tax at statutory rate:	\$230,622	\$221,544	\$192,592
Irish income subject to lower tax rate	(65,715)	(70,515)	(65,157)
Repatriation of foreign earnings	—	—	48,688
Domestic and international tax examination charges (benefits) including penalties	4,363	(35,158)	—
Deferred compensation plan	—	—	7,150
State income taxes, net of federal benefit	1,744	937	437
Research and development tax credits	(14,846)	(934)	(10,439)
Amortization of goodwill/intangibles	261	207	988
Net foreign tax in excess of U.S. federal statutory tax rate	1,729	(45)	—
Other, net	<u>286</u>	<u>1,382</u>	<u>61</u>
Total income tax provision	<u>\$158,444</u>	<u>\$117,418</u>	<u>\$174,320</u>

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

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Pretax income:			
Domestic	\$288,110	\$229,026	\$116,840
Foreign	<u>370,810</u>	<u>403,958</u>	<u>433,424</u>
Total income before income taxes and discontinued operations	<u>\$658,920</u>	<u>\$632,984</u>	<u>\$550,264</u>

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

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Current:			
Federal	\$ 98,826	\$108,115	\$ 93,336
Foreign	60,033	36,462	63,753
State	<u>2,435</u>	<u>1,295</u>	<u>2,627</u>
Total current	<u>\$161,294</u>	<u>\$145,872</u>	<u>\$159,716</u>
Deferred (prepaid):			
Federal	\$ (2,336)	\$ (22,619)	\$ 14,480
Foreign	<u>(514)</u>	<u>(5,835)</u>	<u>124</u>
Total deferred	<u>\$ (2,850)</u>	<u>\$ (28,454)</u>	<u>\$ 14,604</u>

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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 \$1,193 million of unremitted earnings of international subsidiaries. As of November 3, 2007, the amount of unrecognized deferred tax liability on these earnings was \$323 million.

The significant components of the Company's deferred tax assets and liabilities for the fiscal years ended November 3, 2007 and October 28, 2006 are as follows:

	<u>2007</u>	<u>2006</u>
Deferred tax assets:		
Inventory reserves	\$ 31,227	\$ 30,302
Deferred income on shipments to distributors	22,247	20,696
Reserves for compensation and benefits	26,434	23,833
Tax credit carryovers	46,775	42,583
SFAS 115 mark-to-market adjustment	368	4,164
Stock-based compensation	78,203	40,704
Depreciation	—	14,322
Undistributed earnings of foreign subsidiaries	—	6,896
Other	<u>5,694</u>	<u>4,862</u>
Total gross deferred tax assets	210,948	188,362
Valuation allowance	<u>(46,775)</u>	<u>(42,583)</u>
Total deferred tax assets	<u>164,173</u>	<u>145,779</u>
Deferred tax liabilities:		
Depreciation	2,377	—
Acquisition Accounting	(7,010)	(2,331)
Undistributed earnings of foreign subsidiaries	(4,999)	—
Other	<u>(514)</u>	<u>(1,083)</u>
Total gross deferred tax liabilities	<u>(10,146)</u>	<u>(3,414)</u>
Net deferred tax assets	<u>\$154,027</u>	<u>\$142,365</u>

The valuation allowances of \$46.8 million and \$42.6 million at November 3, 2007 and October 28, 2006, respectively, are a full valuation allowance for the Company's state credit carryovers that will begin to expire in 2008.

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.

ANALOG DEVICES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

During fiscal year 2006, the United States Internal Revenue Service (the IRS) completed its examination of fiscal years 2001, 2002 and 2003 and issued their report. The Company agreed to accept this report and filed its 2005 and 2006 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.

During the fourth quarter of fiscal year 2007, the IRS completed its field examination of fiscal years 2004 and 2005. Although the IRS has not issued its final report for fiscal 2004 and 2005, they have issued proposed adjustments related to these two fiscal years. The Company has provided \$4.4 million for taxes and penalties related to certain of these proposed adjustments. There are four items, with a potential total tax liability of \$46 million, that the Company concluded, based on discussions with its tax advisors, are not likely to result in additional tax liability. Therefore, the Company has not recorded any tax liability for these items and plans to appeal these proposed adjustments through the normal processes for the resolution of differences between the IRS and taxpayers. Two of the unresolved matters are one-time issues and pertain to Section 965 of the Internal Revenue Code related to the beneficial tax treatment of dividends from foreign owned companies under The American Jobs Creation Act. The other matters pertain to the computation of research and development tax credits and the profits earned from manufacturing activities carried on outside the United States. As well as impacting taxes payable for fiscal 2004 and 2005, these latter two matters could impact taxes payable in subsequent years.

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 is expected to 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. For fiscal 2006, the IRS has completed the CAP. The IRS and the Company have agreed on the treatment of a number of issues that have been included in an Issue Resolutions Agreement related to the 2006 tax return. However, no agreement was reached on the tax treatment of a number of issues, including the same R&D credit and foreign manufacturing issues mentioned above related to fiscal 2004 and 2005. The IRS has also indicated they plan to audit the pricing of inter company sales (transfer pricing), which is just beginning. The Company has not provided for any additional taxes in respect to the examination of the fiscal 2006 return. The CAP is still underway for fiscal 2007. The Company has not prepared its tax return for fiscal 2007, and the IRS has not issued a report for fiscal 2007.

Although the Company believes its estimates of tax payable are reasonable, no assurance can be given that the Company will prevail in the matters raised related to the fiscal years 2004, 2005, and 2006 and that the outcome of one or all of these matters will not be different than that which is reflected in the historical income tax provisions and accruals. The Company believes such differences would not have a material impact on the Company's financial condition but could have a material impact on the Company's income tax provision, operating results and operating cash flows in the period in which such matters are resolved.

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 \$302 million, \$281 million and \$224 million of product from TSMC in fiscal years 2007, 2006 and 2005, respectively, and approximately \$47 million and \$17 million was payable to TSMC as of

ANALOG DEVICES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

November 3, 2007 and October 28, 2006, respectively. Management anticipates that it will make significant purchases from TSMC in fiscal 2008.

17. Gain on Sale of Product Line

During fiscal 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 \$13.0 million in nonoperating income during fiscal 2006.

18. Subsequent Events

On November 8, 2007, the Company entered into a purchase and sale agreement with certain subsidiaries of ON Semiconductor Corporation to sell the Company's CPU voltage regulation and PC thermal monitoring business for total consideration of approximately \$185 million. The business to be sold consists of core voltage regulator products for the central processing unit in computing and gaming applications and temperature sensors and fan-speed controllers for managing the temperature of the central processing unit. The parties will also enter into a one-year manufacturing supply arrangement. The Company expects to close this transaction in the first quarter of fiscal 2008. This business met the assets held for sale criteria on November 8, 2007, and will therefore be reclassified to discontinued operations during the first quarter of fiscal 2008.

The following table presents the items that will be reclassified into assets and liabilities of discontinued operations during the first quarter of fiscal 2008:

	<u>November 3, 2007</u>	<u>October 28, 2006</u>
Accounts receivable, net	\$12,604	\$10,718
Inventory	23,146	24,811
Property, plant and equipment, net.	<u>864</u>	<u>—</u>
Total assets reclassified to current assets of discontinued operations	<u>\$36,614</u>	<u>\$35,529</u>
Property, plant and equipment, net.	\$ —	\$ 257
Total assets reclassified to non-current assets of discontinued operations	<u>—</u>	<u>257</u>
Accounts Payable	\$ 2,894	\$ 1,857
Deferred Income on shipments to distributors	307	763
Accrued Liabilities	<u>1,183</u>	<u>937</u>
Total liabilities reclassified to current liabilities of discontinued operations	<u>\$ 4,384</u>	<u>\$ 3,557</u>

On November 26, 2007, the Board of Directors of the Company declared a cash dividend of \$0.18 per outstanding share of common stock. The dividend will be paid on December 26, 2007 to all shareholders of record at the close of business on December 7, 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 November 3, 2007 and October 28, 2006, and the related consolidated statements of income, shareholders' equity, comprehensive income, and cash flows for each of the three years in the period ended November 3, 2007. 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 November 3, 2007 and October 28, 2006, and the consolidated results of its operations and its cash flows for each of the three years in the period ended November 3, 2007, 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.

As discussed in Note 14 to the financial statements, effective November 3, 2007, the Company adopted Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106, and 132(R)*. Additionally, as discussed in Note 2s to the financial statements, effective October 30, 2005, the Company adopted Statement of Financial Accounting Standards No. 123(R), *Share-Based Payment*.

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 November 3, 2007, 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 26, 2007 expressed an unqualified opinion thereon.

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

Boston, Massachusetts
November 26, 2007

ANALOG DEVICES, INC.
SUPPLEMENTARY FINANCIAL INFORMATION
(Unaudited)

Quarterly financial information for fiscal 2007 and fiscal 2006 (thousands, except per share amounts and as noted) includes adjustments to reflect the classification of our Baseband Chipset Business as discontinued operations:

	<u>4Q07</u>	<u>3Q07</u>	<u>2Q07</u>	<u>1Q07</u>	<u>4Q06</u>	<u>3Q06</u>	<u>2Q06</u>	<u>1Q06</u>
Product Revenue	648,478	637,011	614,701	610,927	609,724	598,915	577,654	556,626
Revenue from the one-time IP license	—	—	—	35,000	—	—	—	—
Total Revenue	648,478	637,011	614,701	645,927	609,724	598,915	577,654	556,626
Cost of sales	<u>269,610</u>	<u>261,689</u>	<u>251,899</u>	<u>243,702</u>	<u>249,427</u>	<u>236,163</u>	<u>226,834</u>	<u>227,329</u>
Gross margin	378,868	375,322	362,802	402,225	360,297	362,752	350,820	329,297
% of Total Revenue	58.4%	58.9%	59.0%	62.3%	59.1%	60.6%	60.7%	59.2%
Research and development	134,124	130,340	128,950	125,901	121,001	118,169	115,320	114,906
Selling, marketing, general and administrative	98,186	100,810	91,258	102,967	99,111	98,044	95,881	94,838
Purchased in-process research and development	—	—	—	—	16,211	5,500	—	—
Special charges	<u>25,183</u>	—	<u>10,116</u>	<u>5,196</u>	<u>777</u>	—	—	<u>1,013</u>
Total operating expenses	257,493	231,150	230,324	234,064	237,100	221,713	211,201	210,757
Operating income from continuing operations	121,375	144,172	132,478	168,161	123,197	141,039	139,619	118,540
% of Total Revenue	19%	23%	22%	26%	20%	24%	24%	21%
Nonoperating (income) expenses:								
Interest expense	—	—	—	—	17	4	21	10
Interest income	(13,578)	(17,721)	(20,871)	(24,837)	(24,301)	(26,716)	(25,895)	(23,257)
Other, net	<u>687</u>	<u>1,272</u>	<u>(10,221)</u>	<u>(7,465)</u>	<u>(211)</u>	<u>435</u>	<u>(13,352)</u>	<u>2,656</u>
Total nonoperating (income) expense	<u>(12,891)</u>	<u>(16,449)</u>	<u>(31,092)</u>	<u>(32,302)</u>	<u>(24,495)</u>	<u>(26,277)</u>	<u>(39,226)</u>	<u>(20,591)</u>
Income from continuing operations before income taxes and minority interest	134,266	160,621	163,570	200,463	147,692	167,316	178,845	139,131
% of Total Revenue	21%	25%	27%	31%	24%	28%	31%	25%
Provision for income taxes	<u>37,862</u>	<u>36,202</u>	<u>39,265</u>	<u>45,115</u>	<u>8,423</u>	<u>31,549</u>	<u>45,128</u>	<u>32,318</u>
Minority Interest	—	—	—	(219)	748	—	—	—
Net Income from continuing operations	<u>96,404</u>	<u>124,419</u>	<u>124,305</u>	<u>155,567</u>	<u>140,017</u>	<u>135,767</u>	<u>133,717</u>	<u>106,813</u>
Net income (loss) from discontinued operations	1,485	(3,984)	1,051	(2,340)	(1,598)	8,918	12,104	13,744
Net Income	<u>97,889</u>	<u>120,435</u>	<u>125,356</u>	<u>153,227</u>	<u>138,419</u>	<u>144,685</u>	<u>145,821</u>	<u>120,557</u>
% of Total Revenue	15%	19%	20%	24%	23%	24%	25%	22%
Earnings Per share — basic								
Income from continuing operations	0.32	0.39	0.38	0.46	0.40	0.38	0.37	0.29
Net income	0.32	0.38	0.38	0.45	0.40	0.40	0.40	0.33
Earnings Per share — diluted								
Income from continuing operations	0.31	0.38	0.37	0.45	0.39	0.37	0.35	0.28
Net income	0.31	0.37	0.37	0.44	0.39	0.39	0.39	0.32
Shares used to compute earnings per share (in thousands):								
Basic	305,867	318,465	329,988	338,698	346,803	357,887	364,225	366,135
Diluted	313,825	327,331	338,840	349,208	357,164	369,542	376,811	380,337
Dividends declared per share	<u>0.18</u>	<u>0.18</u>	<u>0.18</u>	<u>0.16</u>	<u>0.16</u>	<u>0.16</u>	<u>0.12</u>	<u>0.12</u>

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 November 3, 2007. 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 November 3, 2007 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 November 3, 2007. 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 November 3, 2007, 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 Analog Devices, Inc.'s internal control over financial reporting as of November 3, 2007, 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 included in the accompanying management's report on internal control over financial reporting. Our responsibility is to express an opinion on 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, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, 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, Analog Devices, Inc. maintained, in all material respects, effective internal control over financial reporting as of November 3, 2007, 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 November 3, 2007 and October 28, 2006, and the related consolidated statements of income, shareholders' equity, comprehensive income, and cash flows for each of the three years in the period ended November 3, 2007 of Analog Devices, Inc. and our report dated November 26, 2007 expressed an unqualified opinion thereon.

Ernst + Young LLP

Boston, Massachusetts
November 26, 2007

(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 November 3, 2007 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, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information required by this item relating to our directors and nominees is contained in our 2008 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 relating to compliance with Section 16(a) of the Securities Exchange Act of 1934 is contained in our 2008 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 and have posted it in the Corporate Governance section of our website which is located at www.analog.com. 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 2007, we made no material change to the procedures by which shareholders may recommend nominees to our Board of Directors, as described in our 2007 proxy statement.

Information required by this item relating to the audit committee of our Board of Directors is contained in our 2008 proxy statement under the caption “Corporate Governance — Board of Directors Meetings and Committees — Audit Committee” and is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

Information required by this item is contained in our 2008 proxy statement under the captions “Corporate Governance — Directors’ Compensation” and “Information About Executive Compensation” and is 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 2008 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 2008 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, AND DIRECTOR INDEPENDENCE

Information required by this item relating to transactions with related persons is contained in our 2008 proxy statement under the caption “Corporate Governance — Certain Relationships and Related Transactions” and is incorporated herein by reference. Information required by this item relating to director independence is contained in our 2008 proxy statement under the caption “Corporate Governance — Determination of Independence” and is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Information required by this item is contained in our 2008 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 November 3, 2007, October 28, 2006 and October 29, 2005
- Consolidated Balance Sheets as of November 3, 2007 and October 28, 2006
- Consolidated Statements of Shareholders' Equity for the years ended November 3, 2007, October 28, 2006 and October 29, 2005
- Consolidated Statements of Comprehensive Income for the years ended November 3, 2007, October 28, 2006 and October 29, 2005
- Consolidated Statements of Cash Flows for the years ended November 3, 2007, October 28, 2006 and October 29, 2005

(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 NOVEMBER 3, 2007
ITEM 15(c)
FINANCIAL STATEMENT SCHEDULE**

ANALOG DEVICES, INC.

SCHEDULE II — VALUATION AND QUALIFYING ACCOUNTS

Years ended November 3, 2007, October 28, 2006 and October 29, 2005

(Thousands)

<u>Description</u>	<u>Balance at Beginning of Period</u>	<u>Additions Charged to Income Statement</u>	<u>Deductions</u>	<u>Balance at End of Period</u>
Accounts Receivable Reserves and Allowances:				
Year ended October 29, 2005	<u>\$4,645</u>	<u>\$2,216</u>	<u>\$3,979</u>	<u>\$2,882</u>
Year ended October 28, 2006	<u>\$2,882</u>	<u>\$3,087</u>	<u>\$3,436</u>	<u>\$2,533</u>
Year ended November 3, 2007	<u>\$2,533</u>	<u>\$4,753</u>	<u>\$3,675</u>	<u>\$3,611</u>

SIGNATURES

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

ANALOG DEVICES, INC.

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

Date: November 30, 2007

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

<u>Name</u>	<u>Title</u>	<u>Date</u>
<u>/s/ RAY STATA </u> Ray Stata	Chairman of the Board	November 30, 2007
<u>/s/ JERALD G. FISHMAN </u> Jerald G. Fishman	President, Chief Executive Officer and Director (Principal Executive Officer)	November 30, 2007
<u>/s/ JOSEPH E. MCDONOUGH </u> Joseph E. McDonough	Vice President-Finance and Chief Financial Officer (Principal Financial and Accounting Officer)	November 30, 2007
<u>/s/ JAMES A. CHAMPY </u> James A. Champy	Director	November 30, 2007
<u>/s/ JOHN L. DOYLE </u> John L. Doyle	Director	November 30, 2007
<u>/s/ JOHN C. HODGSON </u> John C. Hodgson	Director	November 30, 2007
<u>/s/ CHRISTINE KING </u> Christine King	Director	November 30, 2007
<u>/s/ F. GRANT SAVIERS </u> F. Grant Saviers	Director	November 30, 2007
<u>/s/ PAUL J. SEVERINO </u> Paul J. Severino	Director	November 30, 2007
<u>/s/ KENTON J. SICCHITANO </u> Kenton J. Sicchitano	Director	November 30, 2007
<u>/s/ LESTER C. THUROW </u> Lester C. Thurow	Director	November 30, 2007

Exhibit Index

<u>Exhibit No.</u>	<u>Description</u>
†2.1	Purchase and Sale Agreement, dated as of September 9, 2007, among Analog Devices, Inc., various subsidiaries, and MediaTek Inc.
†2.2	Form of License Agreement to be entered into among Analog Devices, Inc., Analog Devices B.V. and MediaTek Inc.
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	Amendment No. 1 to Analog Devices, Inc. Amended and Restated Deferred Compensation Plan.
*10.3	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.
*10.4	First Amendment to Trust Agreement for Deferred Compensation Plan between Analog Devices, Inc. and Fidelity Management Trust Company dated as of January 1, 2005, filed as an exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended October 28, 2006 (File No. 1-7819) as filed with the Commission on November 20, 2006 and incorporated herein by reference.
*10.5	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.
*10.6	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.
*10.7	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.
10.8	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.
*10.9	2006 Stock Incentive Plan of Analog Devices, Inc., filed as Appendix A of the Company's Definitive Proxy Statement on Schedule 14A filed with the Commission on February 8, 2006 (File No. 1-7819) and incorporated herein by reference.
*10.10	Amendment No. 1 to 2006 Stock Incentive Plan of Analog Devices, Inc., filed as an exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended October 28, 2006 (File No. 1-7819) as filed with the Commission on November 20, 2006 and incorporated herein by reference.
*10.11	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 December 22, 2006 and incorporated herein by reference.
*10.12	Form of Confirming Memorandum for Grants of Non-Qualified Stock Options to Directors for usage under the Registrant's 2006 Stock Incentive Plan, filed as an exhibit to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended August 4, 2007 (File No. 1-7819) as filed with the Commission on August 21, 2007 and incorporated herein by reference.
*10.13	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.

<u>Exhibit No.</u>	<u>Description</u>
*10.14	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.
*10.15	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.
10.16	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.
10.17	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.
10.18	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.
10.19	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.
10.20	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.
*10.21	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.
*10.22	Amendment dated as of October 22, 2007 to the Employment Agreement dated as of 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 October 26, 2007 and incorporated herein by reference.
*10.23	Executive Retention Agreement dated October 22, 2007 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 October 26, 2007 and incorporated herein by reference.
*10.24	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.
*10.25	Description of Executive Performance Bonus Plan for fiscal year 2007, incorporated herein by reference to Item 5.02(e) in the Company's Current Report on Form 8-K (File No. 1-7819) filed December 22, 2006.
*10.26	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.
*10.27	Amendment dated as of October 22, 2007 to the Employee Retention Agreement dated as of January 16, 1989 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 October 26, 2007 and incorporated herein by reference.
*10.28	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.
*10.29	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.

<u>Exhibit No.</u>	<u>Description</u>
10.30	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.
10.31	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.
10.32	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.
10.33	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.
10.34	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, filed as an exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended October 28, 2006 (File No. 1-7819) as filed with the Commission on November 20, 2006 and incorporated herein by reference.
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, filed as an exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended October 28, 2006 (File No. 1-7819) as filed with the Commission on November 20, 2006 and incorporated herein by reference.
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, filed as an exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended October 28, 2006 (File No. 1-7819) as filed with the Commission on November 20, 2006 and incorporated herein by reference.
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, filed as an exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended October 28, 2006 (File No. 1-7819) as filed with the Commission on November 20, 2006 and incorporated herein by reference.
†10.39	Fifth Amendment dated September 14, 2007 to Lease Agreement dated November 14, 1997, as amended, between Analog Devices, Inc. and Crown-Greensboro I, LLC (as successor to 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.

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

Board of Directors

Ray Stata

Chairman of the Board
Analog Devices, Inc., Norwood, MA

Jerald G. Fishman

President and Chief Executive Officer
Analog Devices, Inc., Norwood, MA

James A. Champy

Vice President and Chairman of Consulting
Perot Systems Corporation, Plano, TX

John L. Doyle

Retired Executive Vice President
Hewlett-Packard Company, Palo Alto, CA

John C. Hodgson

Retired Senior Vice President, and
Chief Marketing and Sales Officer
E.I. DuPont de Nemours & Co., Inc.,
Wilmington, DE

Yves-Andre Istel

Senior Advisor
Rothschild, Inc., New York, NY

Christine King

President and Chief Executive Officer
AMI Semiconductor, Inc., Pocatello, ID

F. Grant Saviers

Retired Chairman of the Board and
Chief Executive Officer
Adaptec, Inc., Milpitas, CA

Paul J. Severino

Private Investor, Founder and Former Chairman
Bay Networks, Inc., Boston, MA

Kenton J. Sicchitano

Retired Global Managing Partner
PricewaterhouseCoopers LLP, New York, NY

Corporate Officers and Executives

Ray Stata

Chairman of the Board

Jerald G. Fishman

President and Chief Executive Officer

Samuel H. Fuller

Vice President, Research and Development

Robert R. Marshall

Vice President, Worldwide Manufacturing

Mark Martin

Vice President and General Manager,
Micromachined Products Division

William A. Martin

Treasurer

William Matson

Vice President, Human Resources

Robert McAdam

Vice President,
Analog Semiconductor Components

Brian P. McAloon

Vice President, DSP and Systems
Products Group

Joseph E. McDonough

Vice President, Finance, and
Chief Financial Officer

Vincent Roche

Vice President, Worldwide Sales

Margaret K. Seif

Vice President, General Counsel, and Secretary

Vice Presidents

Howard Cheng

Dennis Dempsey

Gerry Dundon

Kevin Greene

John Hassett

Peter Henry

John Hussey

Osamu Mawatari

Gerald McGuire

Dick Meaney

Peter Real

Fellows

Robert W. Adams

Woodrow S. Beckford

Derek Bowers

A. Paul Brokaw

Michael Coln

Lawrence DeVito

Denis Doyle

Barrie Gilbert

Royal Gosser

Bill Hunt

Michael Judy

Josh Kablotsky

Colin Lyden

Christopher W. Mangelsdorf

John Memishian

Douglas A. Mercer

Frank M. Murden

Katsu Nakamura

Mohammad Nasser

Wyn Palmer

Brad W. Scharf

Larry Singer

David Smart

Jacob Steigerwald

Michael P. Timko

Michael G. Tuthill

James Wilson

Scott Wurcer

Legal Counsel

WilmerHale LLP

60 State Street, Boston, MA 02109

Stock Trading

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

Manufacturing Facilities

Analog Devices operates manufacturing facilities in Cambridge, Norwood, and Wilmington, MA; Ireland; and the Philippines.

Independent Registered Public Accounting Firm

Ernst & Young LLP

200 Clarendon Street Boston, MA 02116

Sales Offices

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

Shareholder Inquiries

Shareholders of record should contact Analog Devices' transfer agent regarding any changes in address, transfer of stock, or account consolidation.

Transfer Agent

Computershare Trust Company, N.A.

P.O. Box 43078, Providence, RI 02940-3078

(877) 282-1168 (USA)

(781) 575-2879 (Outside USA)

www.computershare.com/investor

Other Information

To obtain a free copy of the 2007 Annual Report on Form 10-K, Corporate Governance Guidelines, Code of Business Conduct and Ethics, or additional information, visit ADI's home page at www.analog.com or write to: Analog Devices, Inc., Maria Tagliaferro, Director of Corporate Communications, One Technology Way, PO Box 9106, Norwood, MA 02062-9106.

Annual Meeting

Analog Devices will hold its Annual Shareholders' Meeting at 10:00 a.m. Tuesday, March 11, 2008, at Babson College, Sorenson Center for the Arts
231 Forest Street, Babson Park, Wellesley, MA

Analog Devices, Inc. submitted its Annual CEO certification for 2007 to the New York Stock Exchange on April 10, 2007.

The Analog Devices, Inc. logo is a registered trademark of Analog Devices, Inc.



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