SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(MARK ONE)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED AUGUST 4, 2001

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	04-2348234
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

ONE TECHNOLOGY WAY, NORWOOD, MA	02062-9106
(Address of principal executive offices)	(Zip Code)

(781) 329-4700
(Registrant's telephone number, including area code)

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 [X] NO

The number of shares outstanding of each of the issuer's classes of Common Stock as of September 1, 2001 was 361,769,129 shares of Common Stock.

PART I
FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ANALOG DEVICES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)
(thousands except per share amounts)

	THREE MONTHS ENDED	
	AUGUST 4, 2001	JULY 29, 2000
Net sales	$ 479,886	$ 700,658
Cost of sales	226,008	300,519
Gross margin	253,878	400,139
Operating expenses:		
Research and development	112,101	102,830
Amortization of intangibles	14,006	599
Special charge	26,157	--
Selling, marketing, general and administrative	66,583	77,198
	218,847	180,627
Operating income	35,031	219,512
Nonoperating (income) expenses:		
Interest expense	15,716	360
Interest income	(30,158)	(15,769)
Other, net	(212)	(44,020)
	(14,654)	(59,429)
Income before income taxes	49,685	278,941
Provision for income taxes	10,382	86,740
Net income	$ 39,303	$ 192,201
Shares used to compute earnings per share - basic	359,535	355,018
Shares used to compute earnings per share - diluted	381,903	383,544
Earnings per share - basic	$ 0.11	$ 0.54
Earnings per share - diluted	$ 0.10	$ 0.50

See accompanying notes.

ANALOG DEVICES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)
(thousands except per share amounts)

	NINE MONTHS ENDED	
	AUGUST 4, 2001	JULY 29, 2000
Net sales	$ 1,853,602	$ 1,771,930
Cost of sales	804,663	782,790
Gross margin	1,048,939	989,140
Operating expenses:		
Research and development	358,632	275,372
Purchased in-process research and development	9,500	--
Amortization of intangibles	38,308	1,771
Special charge	26,157	--
Selling, marketing, general and administrative	229,699	212,795
	662,296	489,938
Operating income	386,643	499,202
Nonoperating (income) expenses:		
Interest expense	48,830	2,863
Interest income	(107,223)	(41,270)
Other, net	(29,501)	(42,757)
	(87,894)	(81,164)
Income before income taxes	474,537	580,366
Provision for income taxes	142,361	173,106
Net income	$ 332,176	$ 407,260
Shares used to compute earnings per share - basic	358,448	352,359
Shares used to compute earnings per share - diluted	382,024	380,107
Earnings per share - basic	$ 0.93	$ 1.15
Earnings per share - diluted	$ 0.87	$ 1.07

See accompanying notes.

ANALOG DEVICES, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)
(thousands)

Assets	AUGUST 4, 2001	OCTOBER 28, 2000	JULY 29, 2000
Cash and cash equivalents	$1,550,254	$1,736,421	$ 619,084
Short-term investments	1,121,256	498,844	439,323
Accounts receivable, net	270,403	463,912	420,440
Inventories:			
Raw materials	21,619	17,505	16,101
Work in process	179,357	179,918	172,682
Finished goods	77,501	134,671	125,118
	278,477	332,094	313,901
Deferred tax assets	105,000	108,989	115,000
Prepaid expenses and other current assets	33,257	27,754	25,629
Total current assets	3,358,647	3,168,014	1,933,377
Property, plant and equipment, at cost:			
Land and buildings	288,956	238,550	201,488
Machinery and equipment	1,449,090	1,260,572	1,195,596
Office equipment	96,903	86,930	83,334
Leasehold improvements	131,671	120,710	115,945
	1,966,620	1,706,762	1,596,363
Less accumulated depreciation and amortization	1,024,049	927,536	892,481
Net property, plant and equipment	942,571	779,226	703,882
Investments	233,223	217,755	249,566
Intangible assets, net	242,177	192,698	36,652
Other assets	52,336	53,644	27,822
Total other assets	527,736	464,097	314,040
	$4,828,954	$4,411,337	$2,951,299

See accompanying notes.

ANALOG DEVICES, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)
(thousands, except share amounts)

Liabilities and Stockholders' Equity	AUGUST 4, 2001	OCTOBER 28, 2000	JULY 29, 2000
Short-term borrowings and current portion of long-term debt	$ 466	$ 5,752	$ 8,832
Obligations under capital leases	6,533	9,938	11,884
Accounts payable	102,683	213,196	162,744
Deferred income on shipments to distributors	151,591	140,369	134,269
Income taxes payable	167,374	86,625	161,667
Accrued liabilities	186,313	194,017	138,251
Total current liabilities	614,960	649,897	617,647
Long-term debt	1,200,000	1,200,261	--
Non-current obligations under capital leases	7,494	12,699	11,168
Deferred income taxes	55,076	51,205	49,000
Other non-current liabilities	243,787	193,625	214,730
Total non-current liabilities	1,506,357	1,457,790	274,898
Commitments and Contingencies			
Stockholders' equity:			
Preferred stock, $1.00 par value, 471,934 shares authorized, none outstanding	--	--	--
Common stock, $.16 2/3 par value, 600,000,000 shares authorized, 361,406,617 shares issued (357,969,010 in October 2000 and 357,314,704 in July 2000)	60,236	59,663	59,554
Capital in excess of par value	600,105	526,820	479,532
Retained earnings	2,050,119	1,717,943	1,518,071
Accumulated other comprehensive income	2,177	2,841	3,765
	2,712,637	2,307,267	2,060,922
Less 99,577 shares in treasury, at cost (45,186 in October 2000 and 26,593 in July 2000)	5,000	3,617	2,168
Total stockholders' equity	2,707,637	2,303,650	2,058,754
	$4,828,954	$4,411,337	$2,951,299

See accompanying notes.

ANALOG DEVICES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(thousands)

	NINE MONTHS ENDED	
	AUGUST 4, 2001	JULY 29, 2000
OPERATIONS Cash flows from operations:		
Net income	$ 332,176	$ 407,260
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation and amortization	154,977	110,444
Gain on sale of investment	(28,084)	(43,857)
Non-cash portion of special charge	12,364	--
Write-off of purchased research and development	9,500	--
Deferred income taxes	7,413	(20,865)
Other non-cash expense	4,949	558
Changes in operating assets and liabilities	203,992	(17,984)
Total adjustments	365,111	28,296
Net cash provided by operations	697,287	435,556
INVESTMENTS Cash flows from investments:		
Purchase of short-term investments available for sale	(2,203,987)	(589,408)
Maturities of short-term investments available for sale	1,581,575	556,638
Payments for acquisitions, net of cash acquired	(37,480)	(5,176)
Proceeds from sale of investment	60,936	64,641
Change in long-term investments	(3,500)	348
Additions to property, plant and equipment, net	(278,637)	(167,895)
Decrease in other assets	2,121	4,904
Net cash used for investments	(878,972)	(135,948)
FINANCING ACTIVITIES Cash flows from financing activities:		
Proceeds from employee stock plans	27,656	41,093
Repurchase of common stock	(21,831)	--
Payments on capital lease obligations	(8,755)	(7,878)
Net decrease in variable rate borrowings	(5,442)	(73,317)
Net cash used for financing activities	(8,372)	(40,102)
Effect of exchange rate changes on cash	3,890	3,687
Net (decrease) increase in cash and cash equivalents	(186,167)	263,193
Cash and cash equivalents at beginning of period	1,736,421	355,891
Cash and cash equivalents at end of period	$ 1,550,254	$ 619,084

See accompanying notes.

ANALOG DEVICES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS AND NINE MONTHS ENDED AUGUST 4, 2001
(all tabular amounts in thousands except per share amounts)

Note 1 - In the opinion of management, the information furnished in the accompanying condensed consolidated financial statements reflects all normal recurring adjustments that are necessary to fairly state the results for these interim periods and should be read in conjunction with the Company's Annual Report to Stockholders on Form 10-K for the fiscal year ended October 28, 2000 (2000 Annual Report).

The Company has a 52-53 week fiscal year that ends on the Saturday closest to the last day in October. Fiscal 2001 is a 53-week fiscal year, with the additional week occurring in the first quarter ended February 3, 2001.

Note 2 - Certain amounts reported in the previous year have been reclassified to conform to the fiscal 2001 presentation.

Note 3 - Comprehensive Income

Total comprehensive income, i.e., net income plus available-for-sale securities valuation adjustments, net gain or loss on derivative instruments designated as cash flow hedges and currency translation adjustments to stockholders' equity, for the third quarter of fiscal 2001 and fiscal 2000 was $37 million and $170 million, respectively. For the first nine months of fiscal 2001 and fiscal 2000, total comprehensive income was $332 million and $399 million, respectively.

Note 4 - Special Charge

During the third quarter of fiscal 2001, the Company recorded a special charge of approximately $26.1 million related to cost reduction actions taken in response to the current economic climate. The actions consisted of workforce reductions in manufacturing and, to a lesser extent, selling, marketing and administrative areas as well as a decision to further consolidate worldwide test operations. The Company anticipates further special charges in the fourth quarter of fiscal 2001 as it continues to implement cost reductions.

Through August 4, 2001, the cost reductions included severance and fringe benefit costs of $13.8 million for approximately 500 employees in the U.S., Europe and Southeast Asia, of which approximately half of these employees have been terminated as of August 4, 2001. Further, the number of temporary and contract workers employed by the Company was also reduced. The special charge also included approximately $12.3 million related to the write-down of test equipment to be abandoned as a result of the consolidation of worldwide test operations.

A summary of the special charge is as follows (in thousands):

	TOTAL COSTS	NON-CASH COSTS	CASH PAYMENTS	BALANCE @ AUGUST 4, 2001
Workforce reductions	$13,793	--	$(2,305)	$11,488
Consolidation of worldwide test operations	12,364	(12,364)	--	--
Total	$26,157	(12,364)	$(2,305)	$11,488

The Company expects to complete the above actions within the next twelve months.

Note 5 - Earnings Per Share

Basic earnings per share is computed based only on the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed using the weighted average number of common shares outstanding during the period, plus the dilutive effect of future issues of common stock relating to stock option programs and other potentially dilutive securities. In calculating diluted earnings per share, the dilutive effect of stock options is computed using the average market price for the period. Shares related to convertible debt financing are excluded because the effect would be anti-

dilutive. Certain of the Company's stock options were excluded because they were antidilutive, but these options could be dilutive in the future. The following table sets forth the computation of basic and diluted earnings per share:

	THREE MONTHS ENDED	
	AUGUST 4, 2001	JULY 29, 2000
Basic:		
Net income	$ 39,303	$ 192,201
Weighted shares outstanding	359,535	355,018
Earnings per share	$0.11	$0.54
Diluted:		
Net income	$ 39,303	$ 192,201
Weighted shares outstanding	359,535	355,018
Assumed exercise of common stock equivalents	22,368	28,526
Weighted average common and common equivalent shares	381,903	383,544
Earnings per share	$0.10	$0.50

	NINE MONTHS ENDED	
	AUGUST 4, 2001	JULY 29, 2000
Basic:		
Net income	$ 332,176	$ 407,260
Weighted shares outstanding	358,448	352,359
Earnings per share	$0.93	$1.15
Diluted:		
Net income	$ 332,176	$ 407,260
Weighted shares outstanding	358,448	352,359
Assumed exercise of common stock equivalents	23,576	27,748
Weighted average common and common equivalent shares	382,024	380,107
Earnings per share	$0.87	$1.07

Note 6 - Investments

On December 27, 2000, the Company sold its investment in WaferTech, LLC to Taiwan Semiconductor Manufacturing Company. The Company received approximately $61 million in cash and realized a pretax gain of approximately $28 million. The realized gain is included in other nonoperating income.

Note 7 - Acquisitions

During the first quarter of fiscal 2001, the Company completed several acquisitions. On October 31, 2000, the Company acquired Thomas Neuroth AG (Neuroth) of Vienna, Austria for approximately $4 million in cash, with additional contingent

cash consideration of up to $4 million payable if certain operational objectives are achieved. Neuroth is a developer of highly integrated circuits for symmetric DSL broadband access. On November 10, 2000, the Company acquired Signal Processing Associates Pty. Ltd., (SPA) of Victoria, Australia for approximately $3 million in cash, with additional contingent cash consideration of up to $1.5 million payable if certain operational objectives are achieved. SPA is a developer and supplier of voice processing and fax/data relay software for telecommunications applications. On December 18, 2000, the Company acquired Integrated Micro Instruments, Inc. (IMI) of Berkeley, California for approximately $1 million in cash and 13,750 shares of common stock (valued at approximately $0.7 million), with an additional 50,000 shares of common stock issuable over the next five years upon the satisfaction of certain conditions. IMI develops MEMS process designs. On January 4, 2001, the Company acquired ChipLogic, Inc. (ChipLogic) of Santa Clara, California for cash of approximately $4 million and approximately 1 million shares of common stock (valued at approximately $60 million), with 489,375 shares of additional common stock issuable if certain operational objectives are achieved. In the third quarter of fiscal 2001, approximately $0.5 million of expense was recorded related to 11,000 shares of common stock issued related to the achievement of certain of these objectives. Through the first nine months of fiscal 2001, approximately $1.9 million of expense was recorded related to 55,000 shares of common stock issued related to the achievement of certain of these objectives. ChipLogic is a developer of high-performance integrated circuits and software focused on the convergence of voice, broadband access and network protocol processing. In connection with the acquisition of ChipLogic, the Company recorded a charge of $9.5 million for the write-off of in-process research and development in the first quarter of fiscal 2001. On January 16, 2001, the Company acquired Staccato Systems, Inc. (Staccato) of Mountain View, California for approximately $23 million in cash, with additional contingent cash consideration of up to $7 million payable if certain operational objectives are achieved. Approximately $2 million of the contingent consideration has been paid. Staccato is in the field of audio synthesis technology. Any contingent consideration paid to Staccato will be accounted for as additional goodwill. Of the $4 million of contingent consideration payable to Neuroth, $3 million will be allocated to goodwill and $1 million will be accounted for as acquisition-related expense. All other contingent consideration will be accounted for as acquisition-related expense. These acquisitions were accounted for as purchases, and the excess of the purchase price over the fair value of the assets acquired was allocated to goodwill, which is being amortized on the straight-line basis over five years.

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

Note 8 - Segment Information

The Company operates in two segments: the design, manufacture and marketing of a broad range of integrated circuits, which comprises approximately 97% of the Company's revenue, and the design, manufacture and marketing of a range of assembled products, which accounts for the remaining 3% of the Company's revenue. Effectively, the Company operates in one reportable segment.

Note 9 - New Accounting Standards

Revenue Recognition

In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin 101, (SAB 101), "Revenue Recognition in Financial Statements." SAB 101 summarizes the application of generally accepted accounting principles to revenue recognition in financial statements. The Company will adopt SAB 101 in the fourth quarter of fiscal 2001 and does not expect SAB 101 to have a material effect on its financial position or results of operations.

Derivatives

Effective October 29, 2000, the Company adopted Statement of Financial Accounting Standards No. 133, (FAS 133), "Accounting for Derivative Instruments and Hedging Activities," as amended by Statement of Financial Accounting Standards No. 138, (FAS 138), "Accounting for Certain Instruments and Certain Hedging Activities." FAS 133 requires that an entity recognize all derivatives as either assets or liabilities and measure such instruments at fair market value. Under certain circumstances, a portion of the derivative's gain or loss is initially reported as a component of other comprehensive income (OCI) until the hedged transaction affects earnings. For a derivative not designated as a hedging instrument, the gain or loss is recognized in income immediately. The adoption of FAS 133 on October 29, 2000 did not have a material impact on

operations; however, it resulted in a $5 million loss recognized in OCI. This loss is being reclassified into earnings during fiscal 2001.

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 primarily denominated in Japanese yen and certain European currencies and are for periods consistent with the terms of the underlying transactions, generally one year or less. Derivative instruments are employed to eliminate or minimize certain foreign currency exposures that can be confidently identified and quantified. In accordance with FAS 133, hedges related to anticipated transactions are designated and documented at the inception of the respective hedge as cash flow hedges and evaluated for effectiveness monthly. As the terms of the forward contract and the underlying transaction are matched at inception, forward contract effectiveness is calculated by comparing the 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 stockholders' equity and reclassified into earnings in the same period during which the hedged transaction affects earnings. Any residual change in fair value of the instruments, or ineffectiveness, is recognized immediately in other expense. No ineffectiveness was recognized in the first nine months of fiscal 2001.

Additionally, the Company enters into foreign currency forward contracts to 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 expense immediately as an offset to the changes in the fair value of the asset or liability being hedged.

Interest Rate Risk Management - The Company enters into interest rate swap and cap agreements to manage its exposure to interest rate movements by effectively converting a portion of its debt and certain financing arrangements from fixed to variable rates. Maturity dates of interest rate swap and cap agreements generally match those of the underlying debt or financing arrangements. These agreements, which have maturities of up to seven years, involve the exchange of fixed rate payments for variable rate payments without the exchange of the underlying principal amounts. Variable rates are based on six-month U.S. dollar LIBOR and are reset on a semiannual basis. The differential between fixed and variable rates to be paid or received is accrued as interest rates change in accordance with the agreements and recognized over the life of the agreements as an adjustment to interest expense. Given the insignificant value of the current interest rate swap and cap agreements, the Company has not designated these instruments as hedges. The change in fair value related to these instruments is recognized immediately in Other expense.

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

Accumulated Derivative Gains or Losses

The following table summarizes activity in other comprehensive income related to derivatives classified as cash flow hedges held by the Company during the period of October 29, 2000 (the date of adoption of FAS 133) through August 4, 2001:

Cumulative effect of adopting FAS 133 as of October 29, 2000	$ 5,142
Less: Reclassifications into earnings from other comprehensive income	(4,481)
	661
Changes in fair value of derivatives - (gain) loss	(6,029)

Reclassification into earnings from other comprehensive income	4,380
Accumulated (gain) loss included in other comprehensive income	$ (988)

The amount of accumulated gain that will be reclassified into earnings over the next twelve months is $1 million.

Business Combinations & Goodwill and Other Intangible Assets

In June 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards No. 141, "Business Combinations" and No. 142, "Goodwill and Other Intangible Assets." FAS 141 requires that all business combinations initiated after June 30, 2001, to be accounted for using the purchase method of accounting. FAS 142, which is effective for fiscal years beginning after December 15, 2001, goodwill and intangible assets deemed to have indefinite lives will no longer be amortized but will be subject to annual impairment tests in accordance with the Statements. Other intangible assets will continue to be amortized over their useful lives. The Company must adopt these new pronouncements no later than November 2002 with earlier adoption permitted. The Company has not yet determined the timing of adoption of these statements or the impact of such adoption on its financial statements.

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This information should be read in conjunction with the unaudited condensed consolidated financial statements and related notes included in Item 1 of this Quarterly Report and the audited consolidated financial statements and related notes and Management Analysis for the fiscal year ended October 28, 2000, contained in our 2000 Annual Report.

The following discussion and analysis may contain forward-looking statements. Such statements are subject to certain risks and uncertainties, including those discussed below or in our 2000 Annual Report, which could cause actual results to differ materially from our expectations. Readers are cautioned not to place undue reliance on any forward-looking statements, as they reflect management's current analysis. We undertake no obligation to release the results of any revision to these forward-looking statements that may be made to reflect events or circumstances after the date of this report or to reflect the occurrence of unanticipated events.

Results of Operations

Net sales for the third quarter of fiscal 2001 were $480 million, a decrease of 32% from the $701 million reported for the third quarter of fiscal 2000. Net sales for the first nine months of fiscal 2001 were $1,854 million, an increase of 5% from the $1,772 million reported for the comparable period of fiscal 2000. Our analog IC product sales decreased by 20% from the same quarter in fiscal 2000 due to a severe decline in the semiconductor industry, and increased 14% over the same nine-month period in fiscal 2000. Sales of DSP IC products decreased by 21% in the first nine months of fiscal 2001 over the same prior year period and declined 59% in the third quarter of fiscal year 2001 from the same prior year quarter primarily due to significant order cancellations and adjustments particularly from telecommunications customers and contract manufacturers. The high levels of demand we experienced last year resulted in excess customer inventories in the current year that are still being absorbed in virtually every market we serve.

Sales declined in all geographic regions in the third quarter of fiscal 2001 as compared to the third quarter of fiscal 2000, with sales in North America experiencing the largest decline. For the nine months ended August 4, 2001, sales increases in Europe and Japan were offset by sales decreases in North America. The remaining international sales, primarily in Southeast Asia, remained relatively flat. International sales in the third quarter of fiscal 2001 represented 65% of total sales compared to 57% in the third quarter of fiscal 2000.

Although we experienced overall sales growth in the nine months ended August 4, 2001 over the same prior year period, continued deteriorating market conditions have resulted in a 20% sales decline compared to the fiscal quarter ended May 5, 2001, as the OEM and distributor channels continued to struggle with excess inventories and uncertain demand. We anticipate continued weak market conditions to result in a further decline in sequential revenue for our fourth quarter of fiscal 2001.

Gross margin was 52.9% for the third quarter of fiscal 2001, a decrease of 420 basis points from the 57.1% gross margin achieved in the third quarter of fiscal 2000. For the quarter ended August 4, 2001, the deterioration in gross margin was due to reduced revenue levels, the impact of inventory reserves and low utilization in our internal fabs. The gross margin decline was minimized by several actions taken over the past six months to reduce manufacturing costs, including scheduled periodic shutdowns of manufacturing operations worldwide, reductions in force in many of our manufacturing locations, the outsourcing of production for many of the products which have experienced the most significant decline in revenue and efforts to reduce all discretionary spending. Gross margin was 56.6% for the first nine months of fiscal 2001, an increase of 80 basis points from the 55.8% gross margin achieved in the first nine months of fiscal 2000. We anticipate weak market conditions to result in a further decline in gross margin for our fourth quarter of fiscal 2001.

Research and development (R&D) expenses were $112 million and $359 million for the three and nine months ended August 4, 2001, respectively, compared to $103 million and $275 million for the corresponding periods of fiscal 2000. As a percentage of sales, R&D spending increased during the third quarter of fiscal 2001 to 23.4%, up from 14.7% in the third quarter of fiscal 2000. The increases in R&D spending for both the three months and nine months ended August 4, 2001 as compared to the same periods in the prior year were due primarily to increased engineering headcount and related employee expenses to continue development of new products. We expect to continue the development of innovative technologies and processes for new products targeted for broadband and wireless communications applications, imaging, audio and high-

performance power and thermal management products for computer and consumer product applications. We believe that a continued commitment to research and development 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.

During the first quarter of fiscal 2001, we recorded a charge of $9.5 million for the write-off of in-process R&D in connection with the acquisition of ChipLogic, Inc. of Santa Clara, California. The total cost of the acquisition was approximately $60 million in common stock and $4 million in cash, with additional contingent consideration of 489,375 shares of common stock payable if ChipLogic achieves certain operational objectives. The contingent consideration is accounted for as acquisition-related expense.

Amortization of intangibles was $14 million and $38 million in the three and nine months ended August 4, 2001, respectively, compared to $0.6 million and $1.7 million in the three and nine months ended July 29, 2000, respectively. The quarter over quarter and year over year increases in amortization were attributable to the amortization of goodwill associated with the acquisition of BCO Technologies plc, Ltd. completed in the fourth quarter of fiscal 2000, and the acquisitions of Thomas Neuroth AG, Signal Processing Associates Pty. Ltd., Integrated Micro Instruments, Inc., ChipLogic, Inc. and Staccato Systems, Inc. completed in the first quarter of fiscal 2001.

During the third quarter of fiscal 2001, we recorded a special charge of approximately $26.1 million related to cost reduction actions taken in response to the current economic climate. The actions consisted of workforce reductions in manufacturing and, to a lesser extent, selling, marketing and administrative areas as well as a decision to further consolidate worldwide test operations. We anticipate further special charges in the fourth quarter of fiscal 2001 as we continue to implement cost reductions.

Through August 4, 2001, the cost reductions included severance and fringe benefit costs of $13.8 million for approximately 500 employees in the U.S., Europe and Southeast Asia, of which approximately half of these employees have been terminated as of August 4, 2001. Further, the number of temporary and contract workers employed by us was also reduced. The special charge also included approximately $12.3 million related to the write-down of test equipment to be abandoned as a result of the consolidation of worldwide test operations. We anticipate the workforce reductions to result in annual salary savings of approximately $18 million.

Selling, marketing, general & administrative (SMG&A) expenses for the third quarter of fiscal 2001 were $67 million, a decrease of $10 million from the $77 million reported for the third quarter of fiscal 2000. This decrease was attributable to cost restraints resulting from reduced revenue levels. SMG&A expenses for the nine months ended August 4, 2001 were $230 million, compared to $213 million for the nine months ended July 29, 2000. In the third quarter of fiscal 2001, SMG&A expenses as a percentage of sales increased to 14% from 11% for the same period in the prior year as a result of reduced sales levels.

R&D and SMG&A expenses declined 11% sequentially as a result of several actions taken to reduce certain of our engineering and administrative expenses, including eliminating bonuses, reducing compensation for our higher paid employees and reducing discretionary expenses.

Interest expense was $16 million and $49 million for the three and nine months ended August 4, 2001, respectively, and $0.4 million and $3 million for the same prior year periods. The significant increase in interest expense for both the three and nine month periods was a result of the issuance of $1.2 billion of 4.75% convertible subordinated notes in the fourth quarter of fiscal 2000.

Interest income was $30 million and $107 million for the three and nine months ended August 4, 2001, respectively, and $16 million and $41 million for the same prior year periods. The three and nine month increases in interest income were attributable to the interest earned on higher cash balances resulting from increased cash flow from operations as well as the unused portion of the funds obtained from the issuance of $1.2 billion of 4.75% convertible subordinated notes in the fourth quarter of fiscal 2000.

During the first quarter of fiscal 2001, we completed the sale of our remaining investment in WaferTech, LLC to Taiwan Semiconductor Manufacturing Company for approximately $61 million in cash. We recorded a pretax realized gain on the

sale of this investment of approximately $28 million, which is included in other nonoperating income. During the third quarter of fiscal 2000, we sold our investment in Chartered Semiconductor Manufacturing Pte., Ltd. for approximately $65 million in cash, and we recorded a pretax realized gain on the sale of this investment of approximately $44 million, which is included in other nonoperating income.

Our effective income tax rate for the third quarter of fiscal 2001 was 21% as compared to 31% for the prior year quarter. The decrease in the effective tax rate for the three month period ended August 4, 2001 was due principally to the decline in our income. The effective income tax rate remained relatively flat at 30.0% for the first nine months of fiscal 2001 as compared to 29.8% for the first nine months of fiscal 2000, primarily due to a shift in the mix of worldwide profits offset by a taxable gain on the sale of our WaferTech investment in the first quarter of fiscal 2001.

Liquidity and Capital Resources

At August 4, 2001, cash, cash equivalents and short-term investments totaled $2,672 million, an increase of $436 million from the fourth quarter of fiscal 2000 and an increase of $1,613 million from the third quarter of fiscal 2000. The increase in cash, cash equivalents and short-term investments in the first nine months of fiscal 2001 was primarily due to operating cash flows of $697 million and approximately $61 million received in the first quarter for the sale of an investment, partially offset by capital expenditures and payments for acquisitions. The increase in cash, cash equivalents and short-term investments from the third quarter of fiscal 2000 was primarily due to increased operating cash flows and $1,172 million of proceeds from the issuance of our 4.75% convertible subordinated notes in the fourth quarter of fiscal 2000.

Accounts receivable totaled $270 million at the end of the third quarter of fiscal 2001, a decrease of $194 million from the fourth quarter of fiscal 2000 primarily due to a 40% decline in sales. Days sales outstanding improved from 55 days at July 29, 2000 to 51 days at August 4, 2001.

Inventories of $278 million at August 4, 2001 were $54 million lower than the inventory levels at October 28, 2000 and $35 million lower than at the end of the third quarter of fiscal 2000. The inventory reductions in both periods were attributable to lower production levels and increased inventory reserves. At August 4, 2001, days cost of sales in inventory increased to 111 days from 94 days at July 29, 2000 as demand continued to decline from the prior year record high levels.

During the first quarter of fiscal 2001, we completed the sale of our remaining investment in WaferTech, LLC to Taiwan Semiconductor Manufacturing Company for approximately $61 million in cash. We recorded a pretax realized gain on the sale of this investment of approximately $28 million.

Net additions to property, plant and equipment of $279 million for the first nine months of fiscal 2001 were funded with a combination of cash on hand and cash generated from operations. Capital spending in the first nine months of fiscal 2001 was up substantially from the $168 million spent in the first nine months of fiscal 2000. We had expanded our manufacturing capacity over the last few quarters as demand for our products increased rapidly. Because of the recent slowdown in our served markets, we have curtailed our capital spending but continue to add strategic capacity in anticipation of a resumption of growth. We currently plan to make capital expenditures of approximately $325 million during fiscal 2001.

During the first quarter of fiscal 2001, we completed several acquisitions. On October 31, 2000, we acquired Thomas Neuroth AG (Neuroth) of Vienna, Austria for approximately $4 million in cash, with additional contingent cash consideration of up to $4 million payable if certain operational objectives are achieved. Neuroth is a developer of highly integrated circuits for symmetric DSL broadband access. On November 10, 2000, we acquired Signal Processing Associates Pty. Ltd., (SPA) of Victoria, Australia for approximately $3 million in cash, with additional contingent cash consideration of up to $1.5 million payable if certain operational objectives are achieved. SPA is a developer and supplier of voice processing and fax/data relay software for telecommunications applications. On December 18, 2000, we acquired Integrated Micro Instruments, Inc. (IMI) of Berkeley, California for approximately $1 million in cash and 13,750 shares of our common stock, with an additional 50,000 shares of common stock issuable over the next five years upon the satisfaction of certain conditions. IMI develops MEMS process designs. On January 4, 2001, we acquired ChipLogic, Inc. (ChipLogic) of Santa Clara, California for approximately 1 million shares of our common stock, with 489,375 shares of additional common stock issuable if certain operational objectives are achieved. In the third quarter of fiscal 2001, approximately $0.5 million of expense was recorded related to 11,000 shares of common stock issued related to the achievement of certain of these objectives. Through the first nine months of fiscal 2001, approximately $1.9 million of expense was recorded related to 55,000 shares of common stock

issued related to the achievement of certain of these objectives. ChipLogic is a developer of high-performance integrated circuits and software focused on the convergence of voice, broadband access and network protocol processing. On January 16, 2001, we acquired Staccato Systems, Inc. (Staccato) of Mountain View, California for approximately $23 million in cash, with additional contingent cash consideration of up to $7 million payable if certain operational objectives are achieved. Approximately $2 million of the contingent consideration has been paid. Staccato is in the field of audio synthesis technology.

At August 4, 2001, our principal sources of liquidity were $2,672 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 current and anticipated available long-term financing, will be sufficient to fund operations, capital expenditures and research and development efforts for the foreseeable future.

Factors Which May Affect Future Results

We may experience material fluctuations in future operating results.

Our future operating results are difficult to predict and may be affected by a number of factors including the timing of new product announcements or introductions by us and our competitors, competitive pricing pressures, fluctuations in manufacturing yields, adequate availability of wafers and manufacturing capacity, the effects of adverse changes in overall economic conditions, the risk that our backlog could decline significantly, our ability to continue hiring engineers and other qualified employees needed to meet the expected demands of our largest customers and changes in product mix and economic conditions in the United States and international markets. In addition, the semiconductor market has historically been cyclical and subject to significant economic downturns at various times, including the recent decline in demand experienced during the first nine months of fiscal 2001. 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 operating results on a quarterly or annual basis.

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

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

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

The semiconductor industry is intensely competitive. Some of our competitors have greater technical, marketing, manufacturing and financial resources than we do. Our competitors also include emerging companies attempting to sell products to specialized markets such as those that we serve. Our competitors have, in some cases, developed and marketed products having similar design and functionality as our products. 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 may not be able to satisfy increasing demand for our products, and increased production may lead to overcapacity and lower prices.

The cyclical nature of the semiconductor industry has resulted in sustained or short-term periods when demand for our products has increased or decreased rapidly. We and the semiconductor industry experienced a period of rapid increases in demand in fiscal 1999 and 2000, and as a result we have increased our manufacturing capacity through both expansion of our production facilities and increased access to third-party foundries. However, we cannot be sure that we will not encounter unanticipated production problems at either our own facilities or at third-party foundries, or that the increased capacity will be sufficient to satisfy demand for our products. We believe that other semiconductor manufacturers have expanded their production capacity over the past several years. This expansion by us and our competitors, or continuation of the decline in the demand for semiconductor products that began in early fiscal 2001, has led to overcapacity in our target markets, which has resulted in a decline in our growth rate and could lead to price erosion that would adversely affect our operating results.

We rely on third-party subcontractors and manufacturers for some industry-standard wafers 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 digital processes. This reliance involves several risks, including reduced control over delivery schedules, manufacturing yields and costs.

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

Our capacity additions resulted in a significant increase in operating expenses. If revenue levels do not increase enough to offset these additional expense levels, our future operating results could be adversely affected. In addition, asset values could be impaired if the additional capacity is underutilized for an extended period of time.

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 located in California and Taiwan as well as wafer fabrication foundries in Taiwan 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. In addition, California has recently experienced intermittent interruption in the availability of electricity. To date the impact on us has been negligible. However, electricity is a critical resource to us, without which our products could not be manufactured at factories exposed to continued lengthy power interruptions. Our future operations in Taiwan may also be affected by recent diplomatic and political tensions involving the governments of the United States and the People's Republic of China.

We are exposed to economic and political risks through our significant international operations.

During the first nine months of fiscal 2001, 60% of our revenues were derived from customers in international markets. We have manufacturing facilities outside the United States in Ireland, the United Kingdom, the Philippines and Taiwan. 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, including the risks associated with the ongoing uncertainties in many developing economies around the world. These risks include air transportation disruptions, expropriation, currency controls and changes in currency exchange rates, tax and tariff rates and freight rates. Although 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 U.S. dollar against other currencies.

We are involved in frequent litigation regarding intellectual property rights, which could be costly to undertake 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. We have from time to time received, and may in the future receive, 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 and a license is not available on commercially reasonable terms, 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 patents or other of our intellectual property rights or to defend us against claims of infringement, and this litigation can be costly and divert the attention of key personnel. See Note 11 of the Notes to our Consolidated Financial Statements for the fiscal year ended October 28, 2000 for information concerning pending litigation involving us. An adverse outcome in this 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.

Leverage and debt service obligations may adversely affect our cash flow.

We have a substantial amount of outstanding indebtedness. There is the possibility that we may be unable to generate cash sufficient to pay the principal of, interest on, and other amounts due in respect of, this indebtedness when due. Our substantial leverage could have significant negative consequences. This substantial leverage could increase our vulnerability to general adverse economic and industry conditions. It may require the dedication of a substantial portion of our expected cash flow from operations to service the indebtedness, thereby reducing the amount of our expected cash flow available for other

purposes, including capital expenditures. It may also limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate.

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

The information required by this item is incorporated herein by reference to the "Management Analysis" set forth on pages 18 through 25 of our 2000 Annual Report to Shareholders.

PART II - OTHER INFORMATION
ANALOG DEVICES, INC.

ITEM 6. Exhibits and reports on Form 8-K

(a) Exhibits

None

(b) Report on Form 8-K

None

Items 1, 2, 3, 4 and 5 of PART II are not applicable and have been omitted.

SIGNATURES

Pursuant to the requirements 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.
(Registrant)

Date: September 18, 2001 By: /s/ Jerald G. Fishman
Jerald G. Fishman
President and
Chief Executive Officer
(Principal Executive Officer)

Date: September 18, 2001 By: /s/ Joseph E. McDonough
Joseph E. McDonough
Vice President-Finance
and Chief Financial Officer
(Principal Financial and
Accounting Officer)