C

THE VISION ENABLED

BROOKTREE

ANNUAL REPORT 1991

FINANCIAL HIGHLIGHTS

(In thousands except per share and employees)	1991	1990
Revenues	$ 83,417	$ 68,454
Research and development expense	17,691	13,378
Operating income	11,712	8,321
Net income	9,503	8,133*
Earnings per share before extraordinary item	.64	.48
Earnings per share	.64	.59*
Cash, cash equivalents and short-term investments	36,577	17,029
Total assets	83,047	54,986
Shareholders' equity	$ 70,438	$ 39,261
Employees	536	417

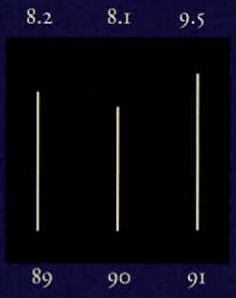
**Includes $1,435 extraordinary item from the tax benefit of a net operating loss carryforward.*

REVENUES BY YEAR

($ in Millions)

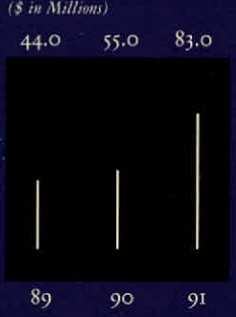
NET INCOME PER YEAR

($ in Millions)



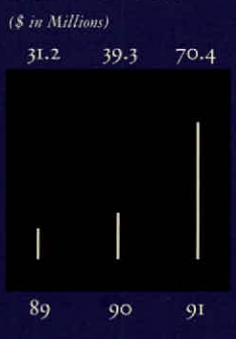
TOTAL ASSETS BY YEAR

($ in Millions)



SHAREHOLDERS' EQUITY BY YEAR

($ in Millions)



BROOKTREE Corporation designs, develops and markets a broad family of proprietary mixed-signal VLSI integrated circuits that **SOLVE** complex technical problems in computer graphics, imaging and automatic test equipment (ATE) systems. Brooktree is the **LEADING SUPPLIER** of **RAMDACs**, which enable workstation, personal computer and laptop computer vendors to offer cost-effective color and grey-scale graphics.

Each of these applications requires a combination of analog and digital functions that in the past were difficult to integrate onto a single **INTEGRATED CIRCUIT**. Brooktree was the first company to develop a **MIXED-SIGNAL SOLUTION** to this problem using popular CMOS technology. The result has been improved performance and power dissipation, reduced size, increased **RELIABILITY**, and broader feature sets that better address a variety of overall system architecture issues critical to Brooktree's customers.

Brooktree's mixed-signal circuits are used by **LEADING COMPUTER SYSTEM MANUFACTURERS** and have become the de facto industry standard in the computer-graphics marketplace. The company was founded in 1981, began operations in 1983, shipped its first product in 1985, achieved **PROFITABILITY** in 1988 and became a public company in 1991.

"DURING FISCAL 1991, BROOKTREE CORPORATION BECAME A PUBLIC COMPANY, ACHIEVED RECORD REVENUES AND INCOME FOR THE YEAR, AND INTRODUCED SEVERAL NEW PRODUCTS."

JAMES BIXBY

CHAIRMAN,
CHIEF EXECUTIVE OFFICER
AND PRESIDENT

TO OUR SHAREHOLDERS

During fiscal 1991, Brooktree Corporation became a public company, achieved record revenues and income for the year, and introduced several new products. We also solidified our dominance in the high-end sector of the graphics market, achieved significant new automatic test equipment (ATE) design wins and successfully launched a Total Quality Management (TQM) program.

Financial highlights for the year include:

–Revenues of $83.4 million, up 22 percent from 1990 revenues of $68.5 million;

–Operating income of $11.7 million, up 41 percent over 1990 of $8.3 million;

–Earnings per share before extraordinary items of $0.64, up 33 percent from $0.48 in 1990;

–Shareholders' equity of $70.4 million, up 79 percent from 1990's $39.3 million.

In April 1991, Brooktree completed an initial public offering of 4,025,000 shares at a price of $12 per share, of which 1,800,000 shares were sold by the Company. This offering generated net cash proceeds to the Company of approximately $20 million, which will be used to continue the Company's expansion in selected strategic growth markets where we can leverage our proprietary expertise in mixed-signal semiconductor technology.

The majority of Brooktree's revenues during fiscal 1991 continued to be generated in the high-performance workstation segment of the computer-graphics marketplace. Important customers during 1991 included Digital Equipment Corp., Hewlett-Packard, IBM, Intergraph, Silicon Graphics and Sun Microsystems. Based on its strong customer relationships and proprietary technology, Brooktree continued to maintain a dominant share in this marketplace during fiscal 1991.

Jun **1985**
BROOKTREE MATRIX ARCHITECTURE IS ANNOUNCED

Jun **1985**
BROOKTREE INTRODUCES INDUSTRY'S FIRST SINGLE-CHIP, 75 MHz CMOS DAC

At the same time, Brooktree maintained strong market share in the lower performance, price-competitive personal computer (PC) RAMDAC marketplace. Many system designers in this marketplace have begun to upgrade their PC products to workstation-caliber graphics performance. Major Brooktree customers in this segment include Apple Computer, AST Research, Compaq, Matrox, Radius and RasterOps.

In the ATE marketplace, Brooktree is one of a few suppliers of semiconductor products that are uniquely defined for ATE systems, providing improved performance and accuracy, plus significant component savings to equipment suppliers. Brooktree continued to build opportunities in this emerging marketplace during fiscal 1991. The Company has achieved more than 50 ATE design wins, up from 10 in 1990 and two in 1989.

Brooktree also positioned itself during fiscal 1991 to take advantage of growth opportunities in the emerging imaging and desktop-video markets. These markets are expected to be led by many of Brooktree's existing graphics customers and will require similar high-value-added, proprietary mixed-signal products. During fiscal 1991 Brooktree added several enhancements to its existing imaging product line, which has led us to several product-development programs with key customers.

New products introduced to the graphics marketplace during fiscal 1991 included the Bt484, a PC version of Brooktree's popular Bt463 TrueVu™ RAMDAC for workstation-based true-color and pseudo-color windowing environments. The Bt484, introduced in the third quarter, provides similarly improved color capabilities for personal computer users. It joins a family of true-color RAMDAC products that support an increasingly important industry trend toward rendering highly realistic color by accessing a palette of 16.7 million colors in easy-to-use windowing environments.

Jul **1985**
INDUSTRY'S FIRST SINGLE-CHIP TRIPLE 8-BIT DAC

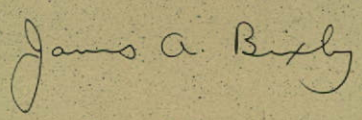
Mar **1986**
FIRST TRIPLE 8-BIT 125 MHz RAMDAC

New products in the ATE market included the Bt630, the industry's first adjustable delay line for digital TTL applications. Introduced in late 1990, Brooktree's Bt698 load, driver and comparator chip was a strong performer during 1991 and accounted for a number of important new design wins.

Also during fiscal 1991, as part of our Total Quality Management (TQM) program, Brooktree began turning concepts into action and results. This dramatically improved product quality, lead times and on-time delivery performance, and enhanced Brooktree's position as a world-class supplier to our customers.

While we are optimistic about the coming year, we remain cautious about the current economic climate. We will continue to carefully manage expenses in response to the current uncertain trends in the economy. At the same time, Brooktree has a strong cash position and balance sheet, and we believe we are well positioned to survive this current period of market uncertainty while building long-term opportunities for the Company.

We thank all our shareholders for your support and confidence in Brooktree's continued success.



JAMES BIXBY

CHAIRMAN,
CHIEF EXECUTIVE OFFICER
AND PRESIDENT

Jan **1987**

BROOKTREE RECEIVES FIRST U.S. PATENT FOR ITS INNOVATIVE MIXED-SIGNAL DATA-CONVERSION TECHNOLOGY

Aug **1988**

FIRST TRUE-COLOR RAMDAC

TECHNOLOGY

The vision that launched Brooktree in the early 1980s started as a simple engineering sketch describing a fundamental approach to solving difficult problems in traditional data converter technology. From that sketch emerged a highly focused corporate strategy for solving one of the most universal challenges of using computers for real-world applications.

The challenge: how to work with the analog-signal inputs and outputs of motion, sound, color and other natural phenomena within a predominantly digital system environment. And the invention that was to launch our company: a better way to combine these functions on monolithic integrated circuits with improved performance, features, size and reliability.

Called the Brooktree Matrix, Brooktree's proprietary semiconductor architecture pioneered a new way to combine analog and digital circuit technologies that previously required separate manufacturing processes and design teams within most system-design organizations. And it allowed Brooktree in 1985 to introduce the first commercially available mixed-signal device for converting analog signals to digital signals and vice-versa. These data-conversion devices combined in one integrated circuit all the analog and digital circuitry that previously had required 25 square inches of circuit board.

This fundamental matrix architecture also provided the critical enabling technology for Brooktree products that helped ignite the computer-graphics revolution. It has been the core for all subsequent Brooktree development activity, and has implications across a broad spectrum of both current and emerging computer and electronic system applications.

From the beginning, Brooktree's ability to combine all the analog and digital functions necessary to create an entire system on a single chip has given the Company a unique design perspective. Our engineering staff's expertise tends to lean more heavily to systems rather than semiconductors, which means that Brooktree's engineering staff generally starts with the overall system definition before developing the integrated-circuit solutions in parallel with a customer's own system design.

Brooktree works closely with our customers to define new product concepts, and even to identify emerging applications for our products. Roughly one-third of Brooktree employees are directly involved in these endeavors, and a substantial 21 percent of Brooktree's annual revenues are dedicated to research and development. The majority of Brooktree's capital expenditures goes to supplying its engineering personnel with the most powerful design automation and production test tools available.

To maintain the widest possible manufacturing-technology flexibility, Brooktree uses third-party wafer manufacturers rather than investing in these capital-intensive and often restrictive and burdensome resources. This strategy has allowed Brooktree to focus its resources more aggressively on developing new mixed-signal applications and the proprietary know-how involved to test these devices.

Brooktree believes mixed-signal technology will play an increasingly important role in a wide variety of critical computer and electronic applications. Having acquired the hard-won practical knowledge to design and test these highly complex circuits, Brooktree has the technical expertise to aggressively pursue a broad range of attractive market opportunities.

BROOKTREE'S BT102 SINGLE 8-BIT DIGITAL-TO-ANALOG CONVERTER (DAC) WAS THE FIRST TO COMBINE COMPLEX ANALOG AND DIGITAL FUNCTIONS ON A SINGLE CHIP.

Sep **1988**

BROOKTREE INTRODUCES ULTRA-FAST DUAL COMPARATOR

Sep **1988**

BROOKTREE INTRODUCES A FAMILY OF PROGRAMMABLE TIMING EDGE VERNIERS

"THE VISION THAT LAUNCHED BROOKTREE STARTED AS A SIMPLE ENGINEERING SKETCH AND HAS GROWN INTO A HIGHLY FOCUSED CORPORATE STRATEGY."

DR. HENRY KATZENSTEIN

VICE PRESIDENT,
CHIEF SCIENTIST

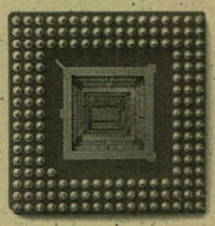
FROM LEFT TO RIGHT:
JOE COLLES, DIVISION FELLOW
MICHAEL BRUNOLLI, DIVISION FELLOW
HENRY KATZENSTEIN, VICE PRESIDENT, CHIEF SCIENTIST
DALE ROARK, PRODUCT LINE ARCHITECT & DIVISION FELLOW

"MOST OF TODAY'S GRAPHICS APPLICATIONS WERE NOT ECONOMICALLY FEASIBLE IN THE MID-1980s PRIOR TO BROOKTREE'S INTRODUCTION OF ITS TECHNOLOGY FOR COMBINING DIGITAL AND ANALOG FUNCTIONS ON A SINGLE INTEGRATED CIRCUIT."

RICHARD IRVING

DIRECTOR,
GRAPHICS AND IMAGING
STRATEGIC BUSINESS UNIT

FROM LEFT TO RIGHT
DAVE JOHNSON, SENIOR PRODUCT ENGINEER
RICHARD IRVING, DIRECTOR, GRAPHICS & IMAGING SBU
BOB MATLIN, TEST ENGINEER
LISA LIPSCOMB, DESIGN ENGINEER



BROOKTREE'S BT463 SETS NEW INDUSTRY STANDARDS, ADDING "TRUE-COLOR" CAPABILITIES TO WORKSTATIONS USING WINDOWS

The computer-graphics market represented a fertile starting point for fulfilling Brooktree's unique vision of a silicon bridge between the analog and digital worlds. As a market on the brink of explosive growth, it offered a high-visibility entree for Brooktree's technology.

Computer-graphics technology has redefined how we look at and use computers. Yet most of today's graphics applications were not economically feasible in the mid-1980s prior to Brooktree's introduction of its technology for combining digital and analog functions on a single integrated circuit.

Early graphics systems were expensive and cumbersome – one or more printed circuit boards containing a variety of complex analog and digital circuits. Worse, there was no common ground for a standard low-cost, widely applicable display solution.

This all changed in 1985 when Brooktree introduced its first RAMDAC, which combined static random access memory ("RAM"), logic and digital-to-analog converter ("DAC") data-conversion technology on a single integrated circuit. It substantially lowered system cost and power consumption while increasing reliability and performance.

Brooktree RAMDACs soon became industry standards. Today, they've been adopted as a common interface to the computer display monitor by such leading computer manufacturers as Apple Computer, Digital Equipment Corp., Hewlett-Packard, IBM and Sun Microsystems.

Workstation and personal computer manufacturers are now able to adapt standard platforms for a variety of display requirements. And the percentage of workstations shipped with color or grey-scale monitors has grown from approximately 20 percent in the late 1980s to 75 percent today. Most leading workstation manufacturers incorporate our RAMDACs into their systems, and Brooktree also is a leading supplier of RAMDACs for use in personal computers.

Meanwhile, Brooktree has developed one of the industry's most comprehensive product lines, with more than 50 RAMDACs and complementary products for both workstations and personal computers. New products have provided higher levels of integration, improved performance, and a variety of key functional enhancements such as:

- high-fidelity "true color" in workstations and personal computers for applications like three-dimensional drawing;
- a "power-down" graphics-display mode for laptops to conserve battery life;
- diverse signal-frequency and resolution options;
- a cost-saving range of additional on-chip features like cursor and clock generators that otherwise require external circuitry;
- the ability to support multiple visual types – ranging from still images to live video – in a windowing environment for workstations and personal computer systems.

Brooktree also continues to build its imaging product family. During fiscal 1991, Brooktree added faster, higher-resolution, more highly integrated 30 MHz versions of its image digitizers for picture transmission systems, broadcast video scanners, capture boards and medical-imaging systems.

The computer-graphics and imaging marketplace continues to provide a high-profile showcase and demanding proving ground for Brooktree's innovative mixed-signal technology. Brooktree welcomes the challenge of finding new and better ways to view, manipulate and present data in today's increasingly visual, high-performance system environments.

Jan **1989**

FIRST TRIPLE 8-BIT FLASH A/D CONVERTER

Mar **1989**

BROOKTREE INTRODUCES HIGH-VOLTAGE DUAL COMPARATOR

AUTOMATIC TEST EQUIPMENT

Like many visionaries, the designers of Brooktree's innovative mixed-signal technology had a clear destination in mind, but the road for getting there was not as well defined. Specifically, the revolutionary new mixed-signal devices Brooktree had created in the mid-1980s required more stringent test procedures than ever before, exceeding the performance capabilities of the automatic test equipment (ATE) tools then available.

Yet within this dilemma lay an opportunity. The unprecedented speed and complexity of Brooktree's early RAMDAC products quickly became a benchmark for new mixed-signal tester performance. And the very principles that made these devices superior in performance and functional richness could similarly be used to improve ATE speed, precision and reliability in increasingly difficult circuit-test applications.

Brooktree's efforts to devise better test methods for its own complex circuits equipped the Company to understand the many challenging problems facing ATE manufacturers. To accurately test these complex circuits, various expensive testing resources must be used in extremely close electronic proximity to each pin. Therefore, testing as many as 200- to 300-pin circuits and at speeds up to as much as 200 MHz can be a potentially costly proposition and difficult to implement with most of today's relatively cumbersome test equipment.

The answer is to integrate more test circuitry into smaller test heads. The circuitry must combine a high level of complex analog and digital functions, just like many of the devices they are testing. And it must do so in a device that is even faster and more accurate than the devices to be tested.

Brooktree soon proved that it could integrate more of these critical test functions onto smaller amounts of high-performance silicon using its innovative mixed-signal semiconductor technology. Products like Brooktree's load, driver and comparator circuit combined a variety of otherwise cumbersome pin electronics functions onto a single chip.

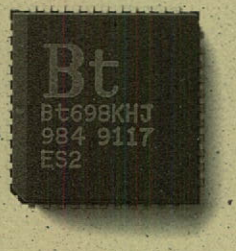
Brooktree works closely with its customers to develop silicon solutions like these to meet difficult circuit-test challenges. Through fiscal 1991, Brooktree developed 10 ATE products which were integrated into systems from manufacturers including Advantest, Hewlett-Packard, IBM, LTX Corp. and its Trillium Division, Teradyne and Texas Instruments. These companies can improve performance and reduce overall system cost by working with an outside ATE semiconductor expert like Brooktree.

Meanwhile, this test circuitry is expected to become increasingly important. Within the multi-billion dollar worldwide semiconductor market, it is estimated that for every billion dollars worth of semiconductors that are manufactured, $40 million dollars worth of automatic test equipment is produced. The relative immaturity of the ATE market and the continuing trends to yet higher-density circuit packaging point to an even greater need for Brooktree's mixed-signal test circuits.

There also are synergistic opportunities for many of Brooktree's ATE circuits in the test and instrumentation market, and in the high-performance personal computer and workstation markets where data-handling timing control is in some cases approaching the same complexity as in the ATE environment.

As the ATE market matures, Brooktree believes its mixed-signal architecture will continue to offer ATE manufacturers the enabling technology to develop significantly smaller, lower cost systems with which to tackle the difficult test challenges of this decade and beyond.

PRODUCTS LIKE BROOKTREE'S BT698 COMBINE PREVIOUSLY CUMBERSOME CIRCUITRY ON A SINGLE, LOW-COST CHIP



Aug **1989** FIRST RAMDAC WITH WINDOWING CAPABILITIES

May **1990** BROOKTREE INTRODUCES DUAL/QUAD CHANNEL DELAY LINE

Aug **1990** FIRST RAMDAC SUPPORTING MULTIPLE VISUAL TYPES IN WINDOWS

"BROOKTREE'S EFFORTS TO DEVISE BETTER TEST METHODS FOR ITS OWN COMPLEX CIRCUITS EQUIPPED THE COMPANY TO UNDERSTAND THE MANY CHALLENGING PROBLEMS FACING ATE MANUFACTURERS."

NARESH BATRA

VICE PRESIDENT,
ATE STRATEGIC
BUSINESS UNIT

FROM LEFT TO RIGHT:
BUD PATTERSON, SENIOR PRODUCT ENGINEER
WYLIE PLUMMER, MANAGER, ATE DESIGN
NARESH BATRA, VICE PRESIDENT, ATE SBU
TIM WILHELM, PRODUCT LINE MANAGER
STUART MOLIN, DESIGN ENGINEER

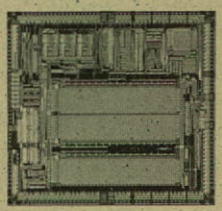
"BROOKTREE'S ORIGINAL VISION FOR MIXED-SIGNAL TECHNOLOGY REMAINS A HIGHLY DURABLE AND INCREASINGLY VALUABLE CONCEPT WITHIN A FAST-EVOLVING COMPUTER AND ELECTRONICS INDUSTRY."

JAMES BIXBY

CHAIRMAN,
CHIEF EXECUTIVE OFFICER
AND PRESIDENT

FROM LEFT TO RIGHT
RICH LEE, EXECUTIVE VICE PRESIDENT
STEWART KELLY, VICE PRESIDENT, NEW BUSINESS DEVELOPMENT
JAMES BIXBY, CHAIRMAN, CHIEF EXECUTIVE OFFICER AND PRESIDENT
BILL PEAVEY, CHIEF FINANCIAL OFFICER
JEFF TEZA, VICE PRESIDENT, CORPORATE TECHNOLOGY

AN ENDURING VISION



BROOKTREE'S MIXED-SIGNAL INTEGRATED CIRCUIT TECHNOLOGY WILL CONTINUE TO SET HIGH-PERFORMANCE STANDARDS IN CURRENT AND EMERGING ELECTRONIC SYSTEMS.

Brooktree's vision for combining critical analog and digital functions in complex system environments provides a number of significant growth opportunities for the Company both in current and emerging markets.

One of the fastest moving markets in the computer industry continues to be the graphics arena that Brooktree products and technology helped to pioneer. Among the most notable trends in this market is the demand for windowing systems—systems that encompass multiple visual types including animation and full-motion video, and systems that emulate "true-color" capabilities with photo-realistic quality and resolution. The continued development of these applications depends heavily on the proprietary mixed-signal technology of companies such as Brooktree.

At the same time, the advent of high-performance processors and new parallel processing graphic architectures has made graphics capabilities that previously were restricted to only the most powerful super-computers now accessible via a wide range of workstations and personal computers. System manufacturers at all levels of the price/performance curve are working with Brooktree to develop graphics solutions that will help them differentiate their products in an increasingly competitive marketplace.

In addition to these more conventional graphics applications, the industry stands on the threshold of a broad new range of imaging capabilities for desktop-video and other "multimedia" computing applications. Non-computing imaging technologies like broadcast-quality video must be redefined for the computing environment and implemented in highly integrated, easy-to-manufacture silicon technology that resides in the computer. Many of the challenges of this emerging market call heavily upon mixed-signal semiconductor design principles perfected by Brooktree.

Tomorrow's imaging and desktop-video systems will allow users to perform tasks such as video editing. To do this, composite-video signals from broadcast televisions, VCRs or video cameras must be brought into the high-performance computer environment that Brooktree technology continues to help shape and nurture. During 1991 Brooktree continued development efforts for the first in a family of desktop-video products, and plans to announce several important new products in fiscal 1992.

The ATE industry also continues to offer significant opportunities for fulfilling Brooktree's mixed-signal technology vision. There continues to be growing demand for more fully integrated, higher-performance solutions with which to address the increasingly difficult ATE pin-electronics challenge.

Brooktree's original vision for mixed-signal technology remains a highly durable and increasingly valuable concept within the growing semiconductor market. And there continue to be many untapped opportunities for Brooktree's proprietary technology among the Company's currently targeted graphics, imaging and ATE markets.

At the same time, Brooktree's basic core technology has far-reaching implications in a number of other emerging markets, as well. The Company believes the problems solved by our innovative approach to mixed-signal semiconductor design may continue to provide applications across a broad range of current and emerging electronic, computing and communications applications.

Sep **1990**

BROOKTREE INTRODUCES SINGLE-CHIP LOAD, DRIVER AND COMPARATOR

Aug **1991**

BROOKTREE INTRODUCES INDUSTRY'S FIRST ADJUSTABLE CMOS TAPPED DELAY LINE

FINANCIAL TABLE OF CONTENTS

SELECTED FINANCIAL DATA

(In thousands, except per share data)	Year Ended September 30, 1991	1990	1989	1988	1987
Consolidated Statement of Operations Data:					
Revenues	$ 83,417	$ 68,454	$ 51,164	$ 38,775	$ 12,733
Gross margin	50,413	40,372	31,548	23,025	4,860
Research and development expense	17,691	13,378	11,272	7,334	4,765
Operating income (loss)	11,712	8,321	7,782	6,031	(4,941)
Income (loss) before extraordinary item	9,503	6,698	6,077	4,266	(4,864)
Net income (loss)	$ 9,503	$ 8,133	$ 8,236	$ 5,971	$ (4,864)
Earnings (loss) per share:					
Before extraordinary item	$ 0.64	$ 0.48	$ 0.44	$ 0.31	$ (0.45)
Earnings (loss) per share	$ 0.64	$ 0.59	$ 0.60	$ 0.44	$ (0.45)
Weighted average common and commom equivalent shares	14,817	13,829	13,743	13,644	10,799

	At September 30, 1991	1990	1989	1988	1987
Consolidated Balance Sheet Data:					
Working capital	$ 53,408	$ 26,009	$ 23,315	$ 15,545	$ 9,881
Total assets	83,047	54,986	44,000	33,445	23,290
Long-term debt	1,334	2,178	3,042	2,426	2,064
Shareholders' equity	70,438	39,261	31,191	22,087	14,098

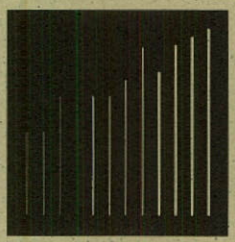
QUARTERLY DATA *(Unaudited)*

(In thousands, except per share data)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Year Ended September 30, 1991				
Revenues	$ 17,580	$ 21,016	$ 22,320	$ 22,501
Gross margin	10,559	12,698	13,475	13,681
Operating income	2,191	2,838	3,180	3,503
Net income	$ 1,801	$ 2,203	$ 2,641	$ 2,858
Earnings per share	$ 0.13	$ 0.16	$ 0.17	$ 0.18
Weighted average common and common equivalent shares	13,636	13,603	15,796	16,233
Year Ended September 30, 1990				
Revenues	$ 15,494	$ 14,630	$ 17,483	$ 20,847
Gross margin	9,270	7,821	10,242	13,039
Operating income	2,302	157	2,725	3,137
Income before extraordinary item	1,819	373	2,122	2,384
Net income	$ 2,209	$ 453	$ 2,576	$ 2,895
Earnings per share:				
Before extraordinary item	$ 0.13	$ 0.02	$ 0.15	$ 0.17
Extraordinary item	0.03	0.01	0.04	0.04
Earnings per share	$ 0.16	$ 0.03	$ 0.19	$ 0.21
Weighted average common and common equivalent shares	13, 787	13,847	13,866	13,815

REVENUES BY QUARTER

($ in Millions)

11 11 15 14 15 15 17 21 18 21 22 23



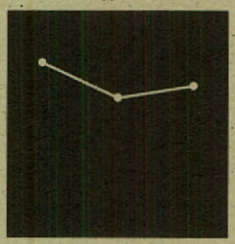
1 2 3 4 1 2 3 4 1 2 3 4

89 90 91

GROSS MARGIN

(% of Revenues)

62% 59% 60%

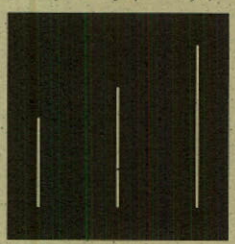


89 90 91

RESEARCH AND DEVELOPMENT

($ in Millions)

11.3 13.4 17.7

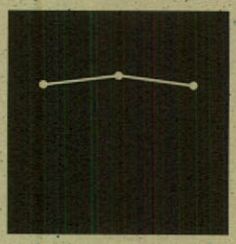


89 90 91

SALES AND MARKETING

(% of Revenues)

17% 18% 17%



89 90 91

Results of Operations

The following table sets forth for the periods indicated certain financial data as a percentage of revenues:

	Year Ended September 30,		
	1991	1990	1989
Revenues	100.0%	100.0%	100.0%
Cost of Sales	39.6	41.0	38.3
Gross Margin	60.4	59.0	61.7
Operating Expenses:			
Research and development	21.2	19.5	22.0
Sales and marketing	16.7	17.8	16.7
General and administrative	6.5	6.0	6.6
Patent litigation	2.0	3.5	1.2
Total	46.4	46.8	46.5
Operating Income	14.0	12.2	15.2
Interest Income–Net	1.6	2.0	1.8
Income Before Income Taxes and Extraordinary Item	15.6	14.2	17.0
Provision for Income Taxes	4.2	4.4	5.1
Income Before Extraordinary Item	11.4	9.8	11.9
Extraordinary Item – tax benefit of net operating loss carryforward		2.1	4.2
Net Income	11.4%	11.9%	16.1%

Fiscal 1991 Compared to Fiscal 1990

Fiscal 1991 revenues increased by 21.9% to $83.4 million from $68.5 million in fiscal 1990. Revenues increased primarily as a result of the continued expansion of the Company's customer base in the workstation graphics market and increasing unit sales volumes to existing workstation graphics customers, in part due to greater sales to certain customers resulting from the favorable impact of an injunction granted as a result of the Company's patent litigation against AMD. The expansion in customer base and product volumes was partially offset by modest declines in average selling prices. Total graphics revenues comprised 94.0% of revenues in fiscal 1991, compared to 94.5% of fiscal 1990 revenues. Due to a continued general softness in the economy and the outlook for the personal computer and workstation marketplaces, the Company believes that its revenues in the first quarter of fiscal 1992 will not exceed the revenues achieved in the fourth quarter of fiscal 1991.

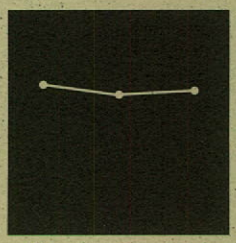
The Company's operating results are subject to quarterly fluctuations as a result of a number of factors, including competitive pressures on selling prices, availability of wafer supply, fluctuation in test yields, changes in the mix of products sold, the timing and success of new product introductions and the scheduling of orders by its customers. Furthermore, the semiconductor industry has historically been characterized by business cycles, with economic downturns resulting in diminished product demand and erosion of average selling prices. The Company believes that the cyclical nature of the semiconductor business could have an impact on its business and operating results in the future. Additionally, the semiconductor industry is intensely competitive and is generally characterized by rapid technological change and rapid rates of product obsolescence. The Company believes that its ability to compete depends upon elements both within and beyond its control, including the success and timing of new product development by the Company and its competitors, customer support, product performance and price. There can be no assurance that the Company will continue to compete successfully as to these elements.

The Company does not directly manufacture the finished silicon wafers used for its products. Finished wafers for the Company's products are currently manufactured by several wafer suppliers, one of which supplies the substantial majority of the Company's wafers. The Company has identified and expects to qualify in the spring of 1992 a second manufacturer to provide the Company with an additional source of supply for the majority of its wafer requirements. The qualification of a second source of supply is expected to result in a decrease in the Company's dependence on a single wafer manufacturer.

GENERAL AND ADMINISTRATIVE

(% of Revenues)

7% 6% 6.5%



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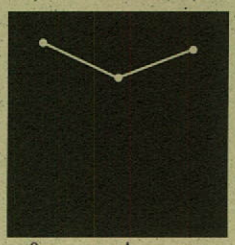
OPERATING INCOME

(% of Revenues)

15% 12% 14%

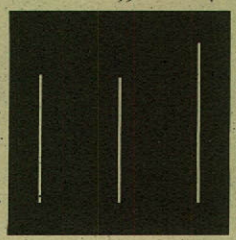


89 90 91

EARNINGS PER SHARE

(Dollars)

0.60 0.59 0.64

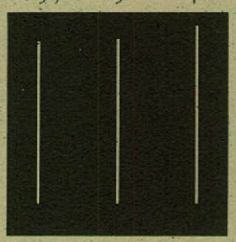


89 90 91

AVERAGE SHARES OUTSTANDING

(Millions)

13.7 13.8 14.8



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The Company's cost of sales includes the cost of wafer fabrication and packaging and assembly performed by third party vendors, and direct and indirect costs associated with the procurement, scheduling, testing and quality assurance functions performed by the Company. Gross margin as a percentage of revenues in fiscal 1991 increased to 60.4% from 59.0% in fiscal 1990. The increase in gross margin as a percentage of revenues for fiscal 1991 was attributable to the recovery from testing capacity constraints encountered in the second quarter of fiscal 1990 which impacted the Company's ability to meet certain scheduled product shipments and, to a lesser extent, a change in product mix, reflecting a growth in revenues from products achieving relatively higher margins. This recovery from testing capacity constraints resulted in higher production volumes and a corresponding increase in the absorption of fixed test costs.

Average selling prices for specific products generally decline, especially for mature products, over a period of time. The Company attempts to offset this reduction in average selling prices on mature products by a combination of the following factors: increasing unit sales volumes, reducing material costs, improving manufacturing yields and introducing new products of superior performance and capabilities with higher prices and margins. There can be no assurances that these efforts will continue to offset price declines in future periods.

Research and development expense in fiscal 1991 increased by $4.3 million and as a percentage of revenues to 21.2% from 19.5% in fiscal 1990. This increase was primarily to support the continued development of the Company's imaging, graphics and ATE products in the form of additional design personnel and related employment and occupancy costs as compared to fiscal 1990. In addition, fiscal 1990 expenses were lower due to a temporary redeployment of certain design personnel to testing operations because of the capacity constraint problems noted above. The Company has budgeted fiscal 1992 research and development expenses to increase when compared to fiscal 1991.

Sales and marketing expenses in fiscal 1991 increased $1.8 million but decreased as a percentage of revenues to 16.7% from 17.8% in fiscal 1990. This expense increase reflects higher sales commissions attributable to revenue increases, and increased salaries and benefits and related expenses, in support of the Company's increased product lines and customer base.

General and administrative expenses in fiscal 1991 increased $1.3 million and as a percentage of revenues to 6.5% from 6.0% in fiscal 1990. This increase is primarily attributable to additional administrative, financial and human resources personnel and associated costs to support the continued growth of the Company and additional costs incurred because the Company is now public.

Patent litigation costs in fiscal 1991 decreased $702,000 and as a percentage of revenues to 2.0% from 3.5% in fiscal 1990. These costs were associated with the ongoing litigation with AMD and with additional claims filed in fiscal 1991 against Sierra and Samsung. Patent litigation costs are expected to continue in fiscal 1992, but the level cannot be readily estimated since the costs are partially dependent upon factors outside the Company's control. See Note 10 of Notes to Consolidated Financial Statements.

Net interest income in fiscal 1991 decreased $56,000, to $1.4 million, due primarily to lower interest rates throughout fiscal 1991 offsetting a higher level of cash available for investment. Interest income is net of $309,000 of interest expense resulting from lease and note obligations.

The provision for income taxes as a percentage of income before taxes was 27.3% in fiscal 1991, compared to 31.2% in fiscal 1990. This decrease resulted primarily from the use of approximately $1.4 million in tax credits in fiscal 1991. The additional tax credits were utilized to reduce the fiscal 1991 tax provision because the Company no longer had available any net operating loss carryforwards. The tax benefit of the loss carryforwards in the previous fiscal years limited the use of the tax credits. The Company believes that its fiscal 1992 tax rate will be somewhat higher than fiscal 1991 due to a decrease in the amount of tax credits available to offset its tax provision. See Note 5 of Notes to Consolidated Financial Statements.

Fiscal 1990 Compared to Fiscal 1989

Fiscal 1990 revenues increased by 33.8% to $68.5 million from $51.2 million in fiscal 1989. The increase in revenues was attributable to the Company's expanding customer base in the graphics market and to increasing unit sales volumes to existing graphics customers. These favorable factors more than offset the effect of lower average unit selling prices that resulted from increased price competition. In addition, fiscal 1989 revenues included a one-time technology sale to a Finnish joint venture (Technology Sale) of $2.5 million or 4.9% of fiscal 1989 revenues.

Gross margin as a percentage of revenues in fiscal 1990 decreased to 59.0% from 61.7% in fiscal 1989. Excluding the benefit of the Technology Sale, the gross margin in fiscal 1989 would have been 60.5%. The decrease in the fiscal 1990 gross margin percentage was attributable to testing capacity

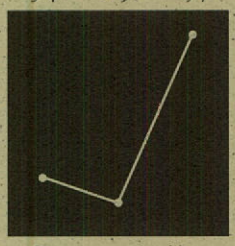
NUMBER OF EMPLOYEES

309 417 536

89 90 91

CURRENT RATIO

3.4 2.9 5.7

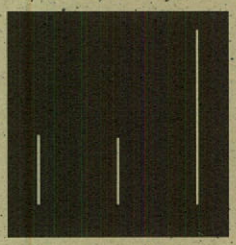


89 90 91

CASH AND SHORT TERM INVESTMENTS

($ in Millions)

17.8 17.0 36.6



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constraints encountered in the second quarter which impacted the Company's ability to meet certain of its scheduled product shipments. The additional costs incurred to resolve the testing constraints also contributed to the decline in the gross margin.

Research and development expense in fiscal 1990 increased by $2.1million, but decreased as a percentage of revenues to 19.5% from 22.0% in fiscal 1989. Excluding a $666,000 charge in connection with the discontinuance of a bipolar wafer facility project, research and development expenses as a percentage of fiscal 1989 revenues would have been 20.7%.

Sales and marketing expense as a percentage of revenues increased to 17.8% in fiscal 1990 from 16.7% in fiscal 1989. This increase was primarily attributable to increased hiring of marketing personnel to support the formation of strategic business units for the Company's imaging and ATE product lines. General and administrative expense as a percentage of revenues decreased to 6.0% in fiscal 1990 from 6.6% in fiscal 1989.

Patent litigation costs in fiscal 1990 were $2.4 million, an increase of $1.8 million compared to fiscal 1989, resulting primarily from the Company's litigation against AMD which proceeded through trial before the end of fiscal 1990.

Net interest income in fiscal 1990 increased $513,000 to $1.4 million, primarily due to a higher level of average funds invested and, to a lesser extent, a lower level of average debt outstanding.

The provision for income taxes as a percentage of income before taxes and tax benefit of the net operating loss carryforward was 31.2% in fiscal 1990, compared to 30.0% in fiscal 1989. This increase was partially attributable to a decrease in tax credits in 1990. The Company's tax benefit of the net operating loss carryforward was $724,000 less in fiscal 1990 than in fiscal 1989.

Liquidity and Capital Resources

At September 30, 1991, the Company had $4.4 million in cash and cash equivalents, and $32.1 million in short-term investments. The Company's operating activities generated net cash of $7.2 million, and its financing activity provided another $21.0 million. The Company's investing activities used $28.4 million, of which $19.8 million related to investments in short-term securities.

The primary use of cash for operating activities during fiscal 1991 was the $4.4 million increase in inventory. This increase was due, in part, to the increase in revenues, the Company's efforts to build inventory levels to protect against potential supply interruptions, accommodate shorter customer order lead times and to a change in the mix of inventory on hand. Apart from the investment of cash in short-term, income producing securities, the Company's principal cash investment activity was for capital expenditures, amounting to $7.5 million in fiscal 1991, down from $10.6 million in fiscal 1990. The expenditures were the result of the Company's continued investment in increased test capacity and capabilities to support its revenue growth, and to support its research and development efforts. The Company has budgeted approximately $9 million for capital expenditures in fiscal 1992.

The Company has a revolving line of credit facility (expires on December 31, 1991) which permits borrowing up to $5.0 million, secured by receivables, inventory and equipment at the bank's prime rate or its five-year certificate of deposit rate plus 1 to 1.5%. At September 30, 1991, there were borrowings of $651,000 outstanding under this facility, due in fiscal 1993. See Note 4 of Notes to Consolidated Financial Statements. At September 30, 1991, capital lease obligations outstanding totalled $1.6 million. These obligations are secured by certain capital equipment and require the Company to meet certain financial covenants. See Note 3 of Notes to Consolidated Financial Statements.

The Company's working capital increased from $23.3 million at September 30, 1989 to $26.0 million at September 30, 1990 to $53.4 million at September 30, 1991. The fiscal 1991 increase was principally the result of the Company's initial public offering of its Common Stock in April 1991, with net cash proceeds of $19.7 million. Accounts receivable increased from $7.0 million at September 30, 1989 to $10.9 million at September 30, 1990 to $12.0 million at September 30, 1991, principally as a result of increased revenues. Inventories increased from $7.5 million at September 30, 1989 to $9.9 million at September 30, 1990 to $14.3 million at September 30, 1991 due to the reasons noted above. Current liabilities decreased from $13.5 million at September 30, 1990 to $11.3 million at September 30, 1991 primarily due to a decrease in accounts payable. The decrease in accounts payable reflected the receipt during the third quarter of fiscal 1991 of a large quantity of no-charge wafers in replacement of an equal quantity of low-yield wafers previously received during the second half of fiscal 1990 from the Company's major wafer supplier and shorter pay cycles to obtain lower prices from certain vendors.

The Company believes its existing capital resources, combined with cash expected to be generated from operations, will be adequate to fund the Company's cash needs for the foreseeable future.

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands)

	September 30, 1991	1990
Assets		
Current Assets:		
Cash and cash equivalents	$ 4,439	$ 4,593
Short-term investments	32,138	12,436
Receivables	11,992	10,932
Inventories	14,295	9,896
Prepaids and other current assets	1,819	1,699
Total current assets	64,683	39,556
Property and Equipment	16,701	15,090
Other Assets	1,663	340
	$ 83,047	$ 54,986
Liabilities and Shareholders' Equity		
Current Liabilities:		
Current portion of long-term debt	$ 869	$ 864
Accounts payable	3,249	6,434
Accrued payroll and benefits	4,086	2,921
Accrued expenses	1,426	2,087
Deferred revenue	1,645	1,241
Total current liabilities	11,275	13,547
Long-Term Debt	1,334	2,178
Commitments and Contingencies (Notes 3, 4 and 10)		
Shareholders' Equity:		
Preferred stock, authorized 15,000,000 shares, Series B Convertible Preferred stock - issued and outstanding - 718,255 in 1991 and 857,327 in 1990 (liquidation preference - $3,950 and $4,715)	3,666	4,432
Common stock, authorized 45,000,000 shares, no par value, issued and outstanding - 14,908,766 in 1991 and 12,822,137 in 1990	57,152	34,643
Retained earnings	10,128	850
Notes receivable for shares issued	(508)	(664)
Total shareholders' equity	70,438	39,261
	$ 83,047	$ 54,986

See accompanying notes.

CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share data)

	Year Ended September 30,		
	1991	1990	1989
Revenues:			
Product sales	$ 83,417	$ 68,454	$ 48,664
Sale of technology			2,500
Total	83,417	68,454	51,164
Cost of Sales	33,004	28,082	19,616
Gross Margin	50,413	40,372	31,548
Operating Expenses:			
Research and development	17,691	13,378	11,272
Sales and marketing	13,963	12,184	8,535
General and administrative	5,372	4,112	3,354
Patent litigation	1,675	2,377	605
Total	38,701	32,051	23,766
Operating Income	11,712	8,321	7,782
Interest Income - Net	1,356	1,412	899
Income Before Income Taxes and Extraordinary Item	13,068	9,733	8,681
Provision for Income Taxes	3,565	3,035	2,604
Income Before Extraordinary Item	9,503	6,698	6,077
Extraordinary Item - tax benefit of net operating loss carryforward		1,435	2,159
Net Income	$ 9,503	$ 8,133	$ 8,236
Earnings Per Share:			
Before extraordinary item	$ 0.64	$ 0.48	$ 0.44
Extraordinary item		0.11	0.16
Earnings Per Share	$ 0.64	$ 0.59	$ 0.60
Weighted Average Common and Common Equivalent Shares	14,817	13,829	13,743

See accompanying notes.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(In thousands)

	Preferred Stock		Common Stock		Retained Earnings	Notes Receivable For Shares	
	Shares	Amount	Shares	Amount	(Deficit)	Issued	Total
Balances at September 30, 1988	865	$ 4,472	12,363	$ 34,244	$ (15,519)	$ (1,110)	$ 22,087
Options exercised			191	543		(373)	170
Warrants exercised			93	214			214
Employee stock bonuses			3	24			24
Warrants				9			9
Collection on notes receivable						451	451
Net income					8,236		8,236
Balances at September 30, 1989	865	4,472	12,650	35,034	(7,283)	(1,032)	31,191
Stock repurchased	(2)	(11)	(226)	(1,914)		433	(1,492)
Conversion of preferred stock into common stock	(6)	(29)	4	29			
Options exercised			332	1,336		(519)	817
Warrants exercised			62	158		(27)	131
Collection on notes receivable						481	481
Net income					8,133		8,133
Balances at September 30, 1990	857	4,432	12,822	34,643	850	(664)	39,261
Issuance of common stock			1,800	19,718			19,718
Stock repurchased			(33)	(76)	(225)	70	(231)
Conversion of preferred stock into common stock	(139)	(766)	93	766			
Options exercised			107	1,348			1,348
Warrants exercised			118	675			675
Collection on notes receivable						86	86
1984 Stock Purchase Plan				60			60
Employee stock bonuses			2	18			18
Net income					9,503		9,503
Balances at September 30, 1991	718	$ 3,666	14,909	$ 57,152	$ 10,128	$ (508)	$ 70,438

See accompanying notes.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Year Ended September 30,		
	1991	1990	1989
Operating Activities:			
Net income	$ 9,503	$ 8,133	$ 8,236
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization of property and equipment	5,791	5,050	4,104
Bad debt and other allowances	557	90	140
Sale of technology			(2,250)
Changes in operating assets and liabilities:			
(Increase) decrease in receivables	(1,972)	(4,030)	(80)
(Increase) decrease in inventories	(4,400)	(2,418)	(1,092)
Increase (decrease) in accounts payable and other accrued expenses	(2,628)	4,445	972
Other - net	300	(227)	(603)
Net cash provided by operating activities	7,151	11,043	9,427
Investing Activities:			
Capital expenditures	(7,534)	(10,619)	(2,725)
Purchases of short-term investments	(37,708)	(25,122)	(30,084)
Sales of short-term investments	17,932	24,203	26,402
Collection on note receivable from sale of technology	1,000	750	250
Other	(2,043)		
Net cash used for investing activities	(28,353)	(10,788)	(6,157)
Financing Activities:			
Issuance of common stock	21,818	947	417
Repurchase of common and preferred stock	(209)	(1,492)	
Issuance of employee notes receivable	(173)	(620)	(44)
Repayment on employee notes receivable	451	791	496
Repayments of long-term debt	(839)	(1,527)	(1,699)
Net cash provided by (used for) financing activities	21,048	(1,901)	(830)
Net Increase (Decrease) In Cash and Cash Equivalents	(154)	(1,646)	2,440
Cash and Cash Equivalents at Beginning of Period	4,593	6,239	3,799
Cash and Cash Equivalents at End of Period	$ 4,439	$ 4,593	$ 6,239
Supplemental Disclosures of Cash Flow Information:			
Interest paid	$ 309	$ 416	$ 540
Income taxes paid, net of refund	4,374	994	580
Supplemental Disclosures of Non-Cash Investing and Financing Activities:			
Additions to capital lease obligations and term loan for acquisitions of equipment	$ —	$ —	$ 2,441
Common stock issued for notes receivable	—	547	373
Conversion of preferred stock into common stock	766	—	—
Employee notes receivable extinguished through repurchase of common stock	91	433	—
Note receivable arising from the sale of technology	—	—	2,250

See accompanying notes

1. The Company and Its Significant Accounting Policies

Brooktree Corporation and its subsidiaries (the "Company") design, develop and market data converters and related semiconductor components for high performance applications in computer graphics, automatic test equipment and imaging.

The Company's principal operations are conducted in the United States. Independent subcontractors, both domestic and foreign, are used for the fabrication and assembly of semiconductor components.

Revenues generated by sales to foreign customers, primarily in Europe and Japan, accounted for 31%, 26% and 23% of fiscal years 1991, 1990 and 1989 revenues, respectively. No customer accounted for 10% or more of fiscal 1991 revenues. One customer accounted for 14% of fiscal 1990 revenues and two customers individually accounted for 12% and 10% of fiscal 1989 revenues. The Company performs ongoing credit evaluations of its customers, but does not require collateral. The Company maintains reserves for potential credit losses; to date, such losses have been insignificant and within management's expectations.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, after elimination of all significant intercompany accounts and transactions.

Fiscal Year

For ease of presentation, the Company has indicated its fiscal year as ending on September 30; whereas, in fact, the Company operates and reports on a 52-53 week fiscal year ending on the last Saturday in September. Fiscal years 1991 and 1990 included 52 weeks; fiscal 1989 included 53 weeks.

Revenue Recognition

Product sales to OEM customers are recognized as revenues upon shipment. Sales to domestic distributors are subject to agreements allowing certain rights of return and price protection on products not resold by the distributors and are generally deferred until the products are resold to the consumer.

Cash Equivalents and Short-Term Investments

Cash equivalents consist of highly liquid investments with original maturities of three months or less. Short-term investments generally have original maturities of three to eighteen months. Cash equivalents and short-term investments are carried at cost which approximates market. Although the Company is exposed to potential credit risk in the event of default by financial institutions or issuers of the investment, the Company's cash investment policies limit the exposure to any one institution or issuer and restrict placement of these investments to only institutions or issuers evaluated as highly credit worthy.

Inventories

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

Property and Equipment

Property and equipment are stated at cost. Depreciation is computed using the straight-line method over estimated useful lives of generally three to five years. Amortization of leasehold improvements is based on the lesser of the estimated useful life or the remaining term of the related lease.

Income Taxes

The provision for income taxes is computed in accordance with Accounting Principles Board Opinion No. 11 and does not reflect the impact of Statement of Financial Accounting Standards No. 96 which is effective for the Company's fiscal year 1993. The Company believes that such statement, if adopted early, would not have had a material impact on the determination of its provision for income taxes, except that benefits from the utilization of the net operating loss carryforwards ($1,435,000 in fiscal 1990, and $2,159,000 in fiscal 1989) would have reduced such provision directly, instead of being reported as an extraordinary item.

Investment tax and research credits are recognized as a reduction of the provision for income taxes when utilized.

Earnings Per Share

Earnings per share is computed based on the weighted average number of common and common equivalent shares outstanding during each period. Stock options and warrants (computed using the treasury stock method), and convertible preferred stock (as converted) are considered to be common stock equivalents. Earnings per share are unchanged on a fully diluted basis for all periods presented.

2. Financial Statement Details

(In thousands)	September 30, 1991	1990
Receivables:		
Trade receivables	$ 12,281	$ 10,322
Current portion of receivable from sale of technology	250	1,000
	12,531	11,322
Less allowance for bad debts	(539)	(390)
	$ 11,992	$ 10,932
Inventories:		
Raw materials	$ 1,050	$ 1,343
Work-in-process	7,948	5,942
Finished goods	5,297	2,611
	$ 14,295	$ 9,896
Property and equipment:		
Machinery and equipment	$ 35,252	$ 28,612
Furniture and fixtures	675	515
Leasehold improvements	1,652	1,256
	37,579	30,383
Less accumulated depreciation and amortization	(20,878)	(15,293)
	$ 16,701	$ 15,090
Current portion of long-term debt:		
Term loan	$ 331	$ 297
Capital lease obligations	538	567
	$ 869	$ 864
Long-term debt:		
Term loan	$ 320	$ 650
Capital lease obligations	1,014	1,528
	$ 1,334	$ 2,178

(In thousands)	Year Ended September 30, 1991	1990	1989
Interest income-net:			
Interest income	$ 1,665	$ 1,828	$ 1,439
Interest expense	(309)	(416)	(540)
	$ 1,356	$ 1,412	$ 899

3. Leases

The Company leases equipment under various capital leases. Certain leases provide for a purchase option at fair value at the end of the lease terms. Amounts included under property and equipment are as follows:

(In thousands)	September 30, 1991	1990	1989
Capitalized cost	$ 5,584	$ 5,584	$ 7,807
Accumulated amortization	(4,512)	(3,847)	(4,665)
	$ 1,072	$ 1,737	$ 3,142
Amortization expense	$ 665	$ 1,208	$ 1,466

The capital lease agreements are collateralized by the related leased equipment and contain certain restrictive covenants.

The Company leases its facilities under various operating leases. The major facility lease expires in November, 1995. The Company is also obligated to sublease additional office space through February 14, 1994. Rental expense for facilities under operating leases amounted to approximately $1,536,000 for fiscal 1991, $999,000 for fiscal 1990, and $756,000 for fiscal 1989.

Minimum future lease payments under non-cancellable leases in excess of one year at September 30, 1991 are as follows:

Fiscal Year *(In thousands)*	Capital Leases	Operating Leases
1992	$ 677	$ 2,023
1993	695	2,135
1994	409	1,479
1995		971
Thereafter		81
Total minimum lease payments	1,781	$ 6,689
Less imputed interest (8% to 12%)	(229)	
Present value of minimum lease payments	1,552	
Less current portion	(538)	
Long-term obligations under capital leases	$ 1,014	

4. Credit Agreement

The Company has an agreement with a bank for a revolving line of credit up to $5,000,000 against receivables, inventories and equipment. The receivable and inventory lines bear interest at the bank's prime rate (8.00% at September 30, 1991). The equipment line bears interest at the bank's five-year certificate of deposit rate (7.35% at September 30, 1991), plus 1 to 1.5%. The agreement contains certain restrictive covenants and expires on December 31, 1991. Under the agreement, the Company cannot pay cash dividends unless certain financial covenants are met. As of September 30, 1991, there were no restrictions on retained earnings with respect to the payment of cash dividends.

In connection with the line of credit agreement, the Company has a term loan outstanding with a balance of $651,000 at September 30, 1991. Principal payments on this loan are as follows:

Fiscal Year *(In thousands)*	
1992	$ 331
1993	320
	651
Less current portion	(331)
Long-term portion of term loan	$ 320

5. Income Taxes

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

(In thousands)	Year Ended September 30, 1991	1990	1989
Current tax provision:			
Federal	$ 3,130	$ 1,008	$ 210
State	605	592	235
Foreign	11		
Deferred (prepaid) tax provision:			
Federal	(431)		
State	250		
Charge in lieu of income taxes		1,435	2,159
Provision for income taxes	$ 3,565	$ 3,035	$ 2,604

The charge in lieu of income taxes represents income taxes in fiscal years 1990 and 1989 which would have been accrued in the absence of the Federal and/or state net operating loss (NOL) carryforwards from prior years. The benefit of such carryforwards is reflected as an extraordinary item.

The deferred (prepaid) tax provision results from differences in the timing of recognition of revenue and expenses for tax and financial reporting purposes. In fiscal 1991, timing differences, resulting in a net prepaid provision, consist primarily of differences in depreciation, expenses and accruals not currently deductible for tax purposes and recognition for tax purposes of a gain from a prior year installment sale.

The reconciliation of the income tax provision computed at the Federal statutory rate (34%) to the recorded provision for income taxes is as follows:

(In thousands)	Year Ended September 30, 1991	1990	1989
Provision at statutory rate	$ 4,443	$ 3,309	$ 2,952
State income taxes, net of Federal benefit	545	391	403
Benefit of foreign sales corporation	(189)	(133)	(80)
Tax credits	(1,360)	(625)	(696)
Other	126	93	25
Provision for income taxes	$ 3,565	$ 3,035	$ 2,604

At September 30, 1991, the Company had tax credit carryforwards available for both financial reporting and Federal income tax purposes of approximately $1,300,000. The tax credit carryforwards generally expire through fiscal 2006.

6. Shareholders' Equity

Common Stock

During the year ended September 30, 1991, the Company's shareholders approved a recapitilization wherein there was a two-for-three reverse split in shares of the Company's common stock and also approved an increase in the number of common shares authorized to 45,000,000. The consolidated financial statements for all dates and periods presented give effect to these events. In April 1991, the Company completed its initial public offering of 1,800,000 shares of common stock. The net proceeds received were approximately $19,718,000.

Stock Option Plans

The Company is authorized to issue common shares to directors and certain employees under various stock option plans. Incentive stock options are granted at prices not less that the fair market value at the date of grant, as determined by the market price for the Company's common stock, and become exercisable in various increments over five years. Options are terminated if not exercised within five to ten years from the date of grant under the various plans. Non-qualified stock options are also granted from time to time to certain key employees at prices less than fair market value with various vesting provisions.

Stock option transactions during fiscal years 1989, 1990 and 1991 are summarized as follows:

(In thousands except per share data)	Options Available For Grant	Options Outstanding Number of Shares	Options Outstanding Price Per Share
Balance at September 30, 1988	186	1,341	$ 2.30 - $ 9.00
Additional shares reserved	1,131		
Granted	(679)	679	$ 9.00
Exercised		(191)	$ 2.30 - $ 6.00
Terminated	214	(214)	$ 2.30 - $ 9.00
Balance at September 30, 1989	852	1,615	$ 2.30 - $ 9.00
Additional shares reserved	12		
Granted	(833)	833	$ 9.00
Exercised		(332)	$ 2.30 - $ 9.00
Terminated	125	(125)	$ 4.00 - $ 9.00
Balance at September 30, 1990	156	1,991	$ 6.00 - $ 9.00
Additional shares reserved	1,100		
Shares cancelled	(112)		
Granted	(532)	532	$ 9.00 - $16.75
Exercised		(108)	$ 6.00 - $ 9.00
Terminated	121	(121)	$ 6.00 - $ 9.00
Balance at September 30, 1991	733	2,294	$ 6.00 - $16.75

At September 30, 1991, options for 975,821 shares were exercisable at prices ranging from $6.00 to $9.00 at an aggregate exercise price of $7,568,000.

Not included in the table above is the commitment to issue stock options on April 1, 1995 for shares at $9.00 per share to certain key employees of the Company's United Kingdom subsidiary, with the number of shares to be determined by certain operating results of the subsidiary through March 31, 1995.

Stock Purchase Plans

The Company has had stock purchase plans which authorized the sale of shares of restricted common stock to certain key employees; the plans expired in fiscal 1989 and no additional shares can be sold. Because of certain restrictions, such shares were sold at a price deemed to be the fair market value of common shares so restricted as determined by the Board of Directors. The shares vest over a five-year period which can be substantially accelerated by the achievement of certain defined financial results. In the event of certain conditions, unvested shares are subject to the right of repurchase by the Company at the original sales price. In addition to the right of repurchase, the Company retains a perpetual right of first refusal (which it has no intentions to terminate); with respect to any proposed transfer of such shares, to purchase the stock at a price equal to the current fair market value less the difference between the fair market value of restricted shares and unrestricted shares at date of issuance. During fiscal 1988, 213,333 shares were sold at a price per share of $0.75. The sale of the stock was financed by interest bearing loans from the Company to the employees (see Note 7).

Preferred Stock

The Company is authorized to issue up to 15,000,000 shares of no par value preferred stock; rights as to dividends, redemptions, liquidation and conversion, if any, are determined upon issuance.

At September 30, 1991, a total of 718,255 shares of Series B Convertible Preferred Stock were outstanding. These shares were issued at $5.50 per share. Each share is convertible at any time into .667 shares of common stock. The shares which have voting rights, are non-cumulative as to dividends and no dividends can be paid on the common stock unless equivalent dividends have been paid on the convertible preferred stock. The shares are also entitled to a liquidation preference of $5.50 per share.

Common Stock Warrants

At September 30, 1991, the Company had 56,417 common stock warrants outstanding, entitling the holders to purchase common stock at prices per share ranging from $6.00 to $9.00 for an aggregate exercise price of $400,000. The warrants generally expire three to six years from the date of issue, through February 1995.

7. Related Party Transactions

Notes receivable for stock issued bear interest at 10% or prime plus 1% and are collateralized by the Company's common stock or other property. Such notes are from employees and are incurred to finance shares issued in connection with stock purchase plans and the exercise of employee stock options.

The Company paid $608,000, $460,000 and $410,000 for fiscal years 1991, 1990 and 1989, respectively, for legal services, including expenses and fees to professional associates, to a law firm of which a founder and director of the Company is a shareholder and the president. These amounts were for services in support of patent litigation and for filing and maintaining patents.

8. Employee Benefit Plans

The Company has implemented cash incentive plans for all employees. The plans are based upon attaining targets for revenues, gross margins, and operating profits for the year, subject to annual revisions by the Board of Directors. Provisions charged to expense under these plans totaled $1,978,000, $1,206,000 and $678,000 for fiscal years 1991, 1990, and 1989, respectively.

The Company also has a 401(k) plan that allows participating employees to contribute from 1% to 15% of their salary, subject to annual limits. The Board may, at its sole discretion, approve Company contributions; the Company's contributions to the plan were $401,000, $264,100 and $84,000 in fiscal years 1991, 1990 and 1989, respectively.

9. Sale of Technology

In June 1989, the Company sold the business, technology and patent rights related to its sensor identification technology to a Finnish joint venture for a consideration of $2,500,000. The Company has received all but one of its scheduled quarterly installment payments as of September 30, 1991. An irrevocable letter of credit has been issued by a bank to guarantee the payment remaining at September 30, 1991.

10. *Patent Litigation*

In the fall of 1988, the Company filed a complaint against Advanced Micro Devices, Inc. ("AMD"), alleging violations of the Semiconductor Chip Protection Act of 1984. In 1989 and 1990, the Company amended the complaint to add claims against AMD for infringement of three patents of the Company. AMD filed a counterclaim for declaratory relief, asking the court to declare that the Company's patents were invalid, requesting an injunction enjoining the Company from maintaining its lawsuit against AMD for patent infringement and also requesting the award of its costs and attorneys' fees.

In September 1990, the jury found in favor of the Company and held AMD liable for damages of approximately $25.8 million, which was increased to approximately $27.5 million with subsequent adjustments. The court also issued an injunction against AMD, preventing AMD from making or selling products which infringe the Company's patents and maskwork registrations. The judgment is now on appeal and will probably be heard in early 1992. Although the Company believes the judgment will be affirmed, there can be no assurance that it will not be reversed, in whole or in part. Thus, the jury award has not been reflected in the Company's consolidated financial statements.

In early 1990, AMD filed a separate complaint alleging that the Company is infringing an AMD patent which was issued to AMD in 1989. In this litigation, AMD seeks an injunction against the Company to prevent the Company from manufacturing and selling products which infringe this patent, and AMD also seeks recovery of money damages. The Company has filed counterclaims alleging that (1) the AMD patent is invalid and not infringed by the Company, (2) additional infringement by AMD of two of the patents involved in the litigation discussed in the previous paragraph in connection with samples of custom products which AMD has supplied to Apple Computer and (3) infringement by AMD of an additional patent not involved in the previous litigation.

In the aftermath of the September 1990 judgment, AMD filed requests for reexamination in the United States Patent Office of the three patents held valid and infringed in that litigation, and the additional Brooktree patent included as a counterclaim in the suit by AMD. AMD's requests for reexamination ask the Patent Office to invalidate the patents primarily on the basis of prior art. AMD's

requests for reexamination of two of the patents already held valid and infringed in the Brooktree v. AMD case are largely based on arguments similar to those advanced and rejected in the trial. AMD's requests for reexamination of the additional patent included as a counterclaim is based largely upon the same prior art as that cited in one of the two patents specified in the previous sentence. The Patent Office has instituted reexamination of all four of the Company's patents.

The suit instituted by AMD against Brooktree has been stayed by the court pending the outcome of (1) the appeal of the judgment in favor of Brooktree in the suit by Brooktree against AMD, (2) the reexamination of the Brooktree patents in the Patent Office, and (3) an application to reissue the AMD patent in the Patent Office. Brooktree and AMD have been ordered by the court to disclose the status of the above to the court every three (3) months.

If AMD is successful in its suit against the Company in obtaining a decision that AMD's patent is valid and is infringed by the Company, the Company could be enjoined from selling products which currently account for substantially all of its revenues. The Company could also be required to pay AMD substantial amounts of money in patent damages or royalties. However, the Company intends to vigorously contest the claims, which the Company believes are without merit. Brooktree does not believe resolution of this proceeding will have a material adverse effect on the Company. The Company is also pursuing what it believes are valid and meritorious claims against AMD for infringement of the Company's patents.

The Patent Office has now issued an Office Action in one of the three patents held to be valid by the jury and infringed by AMD. The Patent Office has confirmed the allowance of a number of the claims found by the jury to be valid and infringed by AMD. These claims cover all of the chips involved in the suit by the Company against AMD. Definitive decisions from the Patent Office in these reexaminations could take several more months and are not expected until some time in 1992. The Company intends to contest these reexaminations vigorously. Based upon a review by the Company's patent counsel of the material submitted by AMD to support AMD's positions in the reexaminations, the Company believes the changes, if any, to the scope of the claims in the Company's patents will not materially affect the protection afforded by these patents.

On April 15, 1991, AMD served a new complaint against the Company, alleging that the wafers used to make the Company's products are fabricated by process steps which infringe claims in another AMD patent. The suit seeks injunctive relief as well as unspecified damages. The Company believes its wafer suppliers' process steps do not infringe the AMD process patent. In any event, the Company believes that its principal supplier of wafers is contractually obligated to indemnify the Company against monetary damages for alleged infringement relating to the supplier's manufacturing processes even though such supplier has denied that it has such obligation. Furthermore, another of the Company's suppliers has a cross-licensing arrangement with AMD that includes the AMD process patent. Based on the foregoing, the Company believes the suit will not have a material adverse effect on the Company even if the Company is found to have infringed the AMD process patent. However, there can be no assurance as to the outcome of the litigation.

The settlement discussions which have taken place to date have not resolved the disputes and the parties are not in active settlement discussions at this time.

On May 17, 1991, the Company filed a lawsuit against Sierra Semiconductor Corporation ("Sierra"). This suit charges that Sierra's computer graphics products infringe four of the Company's patents covering digital-to-analog converter technology and that Sierra has also published data sheets which infringe at least one of the Company's copyright registrations. Two of these patents have been previously held to be valid and infringed by AMD, as noted in the above paragraphs. The complaint requests the court to grant the Company a preliminary injunction preventing Sierra from manufacturing and marketing the products covered by the Company's patents. The complaint also requests a permanent injunction and damages.

Subsequent to the fiscal year ended September 30, 1991, the Company and Sierra entered into a settlement agreement resolving the suit.

A suit is pending against Samsung Semiconductor, Inc. ("Samsung"), for infringement of three of the same patents. The Samsung complaint requests the court to grant the Company a preliminary injunction preventing Samsung from manufacturing and marketing the products covered by the Company's patents and also requests a permanent injunction and damages.

The Company and Samsung have also recently had settlement discussions. On the basis of these discussions, the Company believes that the suit between the Company and Samsung may be settled on terms favorable to the Company, although no assurances can be made.

REPORT OF ERNST & YOUNG, INDEPENDENT AUDITORS

The Board of Directors and Shareholders
Brooktree Corporation

We have audited the consolidated balance sheet of Brooktree Corporation as of September 30, 1991, and the related consolidated statements of income, shareholders' equity and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Brooktree Corporation for the years ended September 30, 1990 and 1989, were audited by other auditors whose report, dated October 26, 1990, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with generally accepted auditing standards. 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 audit provides a reasonable basis for our opinion.

In our opinion, the 1991 financial statements referred to above present fairly, in all material respects, the consolidated financial position of Brooktree Corporation at September 30, 1991, and the consolidated results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles.

San Diego, California
October 25, 1991

Ernst + Young

COMMON STOCK PROFILE

The Company's Common Stock has been traded on the NASDAQ National Market System since the Company's initial public offering on April 17, 1991 under the symbol BTRE. The following table sets forth, for the periods indicated, the high and low closing sale prices for the Company's Common Stock as reported by NASDAQ.

	Year Ended September 30, 1991	
	High	Low
Third Quarter (beginning April 17, 1991)	$ 17.00	$ 12.75
Fourth Quarter	15.50	11.00

As of September 30, 1991, there were approximately 550 holders of record of the Company's Common Stock.

The Company has never paid cash dividends on its Common Stock. The Company currently intends to retain earnings for use in its business and does not anticipate paying any cash dividends for the foreseeable future.

CORPORATE DIRECTORY

Board of Directors

James A. Bixby, Chairman
Myron S. Eichen[2]
William L. Mobraaten[2]
Ellsworth R. Roston[1]
Jack W. Savidge[1,3]
F. D. Townsen[1,3]
J.S. Webb[2,3]

Offices & Subsidiaries

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(619) 452-7580

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0X9 3XD, England
(0844) 261-989

Brooktree, K.K.
Kowa Bldg., No. 9, 4th Floor
1-18-10 Akasaka Minato-Ku
Tokyo 107, Japan
81-3-5880414

Footnotes:
[1] Audit Committee
[2] Compensation Committee
[3] Stock Option Committee

Executive Officers and Management

James A. Bixby
Chairman, Chief Executive Officer and President

Richard H. Lee
Executive Vice President

Naresh Batra
Vice President, ATE Strategic Business Unit

Henry S. Katzenstein
Vice President and Chief Scientist

Stewart Kelly
Vice President, New Business Development

Charles A. Long
Vice President, Operations

William R. Peavey
Vice President, Finance, Chief Financial Officer and Secretary/Treasurer

Bryan Rooney
Vice President, Sales

Jeffrey R. Teza
Vice President, Corporate Technology

Robert W. Zabaronick
Vice President, Human Resources

David Gelvin
Director of Development Engineering

Edward P. Holtaway
Director of Quality Assurance and Reliability

Richard Irving
Director of Graphics & Imaging Strategic Business Unit

Form 10-K

A copy of the Company's Annual Report on Form 10-K, filed with the Securities and Exchange Commission, will be made available to all shareholders at no charge upon the receipt of written request. Please address any such requests to:

Brooktree Corporation
9950 Barnes Canyon Road
San Diego, California 92121-2790
Attn: Investor Relations

Annual Meeting

The Annual Meeting of Shareholders will be held on Friday, March 6, 1992 at 2:00 p.m. at the Sheraton Grande Torrey Pines located at 10950 North Torrey Pines Road, La Jolla, California 92037.

Listing

Brooktree Corporation is listed on the NASDAQ National Market System. The trading symbol is BTRE.

Independent Auditors

Ernst & Young
San Diego, California

General Legal Counsel

Wilson, Sonsini, Goodrich & Rosati
Professional Corporation
Palo Alto, California

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