

ANALOG DEVICES INC
Form 10-Q
August 21, 2007

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
Form 10-Q**

(Mark One)

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

For the quarterly period ended August 4, 2007

OR

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

For the transition period from _____ to _____

Commission File No. 1-7819

Analog Devices, Inc.

(Exact name of registrant as specified in its charter)

Massachusetts

*(State or other jurisdiction of
incorporation or organization)*

04-2348234

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

One Technology Way, Norwood, MA

(Address of principal executive offices)

02062-9106

(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 NO

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

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

As of August 4, 2007 there were 311,185,823 shares of Common Stock, \$0.16 2/3 par value per share, outstanding.

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ANALOG DEVICES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(thousands, except per share amounts)

	Three Months Ended	
	August 4, 2007	July 29, 2006
Product revenue	\$ 680,312	\$ 663,660
Cost of sales (1)	291,727	273,550
Gross margin	388,585	390,110
Operating expenses:		
Research and development (1)	148,562	136,061
Selling, marketing, general and administrative (1)	102,379	99,663
Purchased in-process research and development		5,500
	250,941	241,224
Operating income	137,644	148,886
Nonoperating (income) expense:		
Interest expense		4
Interest income	(17,721)	(26,716)
Other, net	1,272	435
	(16,449)	(26,277)
Income before income taxes	154,093	175,163
Provision for income taxes	33,658	30,478
Net income	\$ 120,435	\$ 144,685
Shares used to compute earnings per share basic	318,465	357,887
Shares used to compute earnings per share diluted	327,331	369,542
Earnings per share basic	\$ 0.38	\$ 0.40

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Earnings per share diluted	\$ 0.37	\$ 0.39
Dividends declared and paid per share	\$ 0.18	\$ 0.16
(1) Includes stock-based compensation expense as follows:		
Cost of sales	\$ 2,477	\$ 2,949
Research and development	\$ 8,172	\$ 8,302
Selling, marketing, general and administrative	\$ 6,816	\$ 8,055
See accompanying notes.		

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CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(thousands, except per share amounts)

	Nine Months Ended	
	August 4, 2007	July 29, 2006
Product revenue	\$ 2,006,058	\$ 1,928,834
Revenue from the one-time payment associated with the licensing of certain intellectual property rights	35,000	
Total revenue	2,041,058	1,928,834
Cost of sales (1)	853,815	797,266
Gross margin	1,187,243	1,131,568
Operating expenses:		
Research and development (1)	439,142	399,197
Selling, marketing, general and administrative (1)	300,105	293,376
Purchased in-process research and development		5,500
Special charges	15,312	1,013
	754,559	699,086
Operating income	432,684	432,482
Nonoperating (income) expense:		
Interest expense		35
Interest income	(63,429)	(75,868)
Other, net	(16,414)	(10,261)
	(79,843)	(86,094)
Income before income taxes and minority interest	512,527	518,576
Provision for income taxes	113,728	107,513
Minority interest	(219)	
Net income	\$ 399,018	\$ 411,063
Shares used to compute earnings per share basic	329,050	362,749
Shares used to compute earnings per share diluted	338,460	375,563

Earnings per share basic	\$	1.21	\$	1.13
Earnings per share diluted	\$	1.18	\$	1.09
Dividends declared and paid per share	\$	0.52	\$	0.40

(1) Includes stock-based compensation expense as follows:

Cost of sales	\$	8,085	\$	4,893
Research and development	\$	25,437	\$	27,108
Selling, marketing, general and administrative	\$	21,624	\$	25,829
See accompanying notes.				

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

	August 4, 2007	October 28, 2006
Assets		
Cash and cash equivalents	\$ 393,898	\$ 343,947
Short-term investments	889,692	1,784,387
Accounts receivable, net	350,868	329,393
Inventories (1):		
Raw materials	17,520	16,430
Work in process	256,497	264,076
Finished goods	97,756	98,145
	371,773	378,651
Deferred tax assets	110,671	91,045
Deferred compensation plan investments	1,181	1,109
Prepaid expenses and other current assets	54,331	82,770
Total current assets	2,172,414	3,011,302
Property, plant and equipment, at cost:		
Land and buildings	366,351	353,912
Machinery and equipment	1,415,793	1,371,332
Office equipment	79,451	78,976
Leasehold improvements	61,992	109,028
	1,923,587	1,913,248
Less accumulated depreciation and amortization	1,358,627	1,350,623
Net property, plant and equipment	564,960	562,625
Deferred compensation plan investments	33,937	30,579
Other investments	686	850
Goodwill	276,972	256,209
Intangible assets, net	33,893	42,808
Deferred tax assets	54,561	54,734
Other assets	28,944	27,744
Total other assets	428,993	412,924
	\$ 3,166,367	\$ 3,986,851

- (1) Includes \$3,432 and \$3,703 related to stock-based compensation at August 4, 2007 and October 28, 2006, respectively.
See accompanying notes.

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CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(thousands, except share amounts)

	August 4, 2007	October 28, 2006
Liabilities and Shareholders' Equity		
Accounts payable	\$ 138,987	\$ 124,566
Deferred income on shipments to distributors	149,283	149,543
Income taxes payable	129,274	60,956
Deferred compensation plan liability	1,181	1,109
Accrued liabilities	141,130	154,769
Total current liabilities	559,855	490,943
Deferred income taxes	7,397	3,414
Deferred compensation plan liability	33,968	30,633
Other non-current liabilities	28,541	25,851
Total non-current liabilities	69,906	59,898
Minority interest		217
Commitments and contingencies		
Shareholders' Equity		
Preferred stock, \$1.00 par value, 471,934 shares authorized, none outstanding		
Common stock, \$0.16 2/3 par value, 1,200,000,000 shares authorized, 311,185,823 shares issued and outstanding (342,000,004 on October 28, 2006)	51,865	57,001
Capital in excess of par value		
Retained earnings	2,471,627	3,378,999
Accumulated other comprehensive income (loss)	13,114	(207)
Total shareholders' equity	2,536,606	3,435,793
	\$ 3,166,367	\$ 3,986,851

See accompanying notes.

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

	Nine Months Ended	
	August 4, 2007	July 29, 2006
Cash flows from operating activities:		
Net income	\$ 399,018	\$ 411,063
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation	107,069	127,947
Amortization of intangibles	10,037	1,953
Stock-based compensation expense	55,146	57,830
Deferred income taxes	(10,574)	(32,386)
Excess tax benefit-stock options	(25,053)	(155,956)
Non-cash portion of special charge		459
Gain on sale of a product line		(13,027)
Gain on sale of an investment	(7,919)	
Purchased in-process research and development		5,500
Minority interest	(219)	
Other non-cash expense	315	664
Changes in operating assets and liabilities	109,695	50,320
Total adjustments	238,497	43,304
Net cash provided by operating activities	637,515	454,367
Cash flows from investing activities:		
Purchases of short-term available-for-sale investments	(1,495,905)	(2,065,104)
Maturities of short-term available-for-sale investments	2,397,676	2,158,075
Additions to property, plant and equipment	(108,633)	(87,542)
(Increase) decrease in other assets	(18)	4,125
Payments for acquisitions	(9,160)	(14,913)
Proceeds from sale of a product line		23,070
Proceeds from sale of an investment	8,003	
Net cash provided by investing activities	791,963	17,711
Cash flows from financing activities:		
Repurchase of common stock	(1,329,521)	(667,970)
Net proceeds from employee stock plans	96,196	79,852
Excess tax benefit-stock options	25,053	155,956
Dividend payments to shareholders	(172,844)	(145,809)
Net cash used for financing activities	(1,381,116)	(577,971)

Effect of exchange rate changes on cash	1,589	1,427
Net increase (decrease) in cash and cash equivalents	49,951	(104,466)
Cash and cash equivalents at beginning of period	343,947	627,591
Cash and cash equivalents at end of period	\$ 393,898	\$ 523,125

See accompanying notes.

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ANALOG DEVICES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED AUGUST 4, 2007

(all tabular amounts in thousands except per share amounts and percentages)

Note 1 Basis of Presentation

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 on Form 10-K for the fiscal year ended October 28, 2006 and related notes. The results of operations for the interim periods shown in this report are not necessarily indicative of the results that may be expected for the fiscal year ending November 3, 2007 or any future period.

The Company has a 52-53 week fiscal year that ends on the Saturday closest to the last day in October. Fiscal 2007 is a 53-week fiscal year and fiscal 2006 was a 52-week fiscal year. The additional week in fiscal 2007 was included in the first quarter ended February 3, 2007. Therefore, the first nine months of fiscal 2007 included an additional week of operations as compared to the first nine months of fiscal 2006.

Note 2 Stock-Based Compensation

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

On October 30, 2005 (the first day of its 2006 fiscal year), the Company adopted SFAS 123R using the modified prospective method as permitted under SFAS 123R. Under this transition method, compensation cost recognized in fiscal 2006 and fiscal 2007 includes: (a) compensation cost for all share-based payments granted prior to but not yet vested as of October 29, 2005, based on the grant-date fair value estimated in accordance with the provisions of SFAS 123, and (b) compensation cost for all share-based payments granted subsequent to October 29, 2005, based on the grant-date fair value estimated in accordance with the provisions of SFAS 123R. In accordance with the modified prospective method of adoption, the Company's results of operations and financial position for prior periods were not restated.

Grant-Date Fair Value

The Company uses the Black-Scholes option pricing model to calculate the grant-date fair value of an award. Information pertaining to the Company's stock option awards and the related estimated weighted-average assumptions to calculate the fair value of stock options granted during the three- and nine-month periods ended August 4, 2007 and July 29, 2006 are as follows:

Stock Options	Three Months Ended		Nine Months Ended	
	August 4, 2007	July 29, 2006	August 4, 2007	July 29, 2006
Options granted (in thousands)	109	158	7,649	8,398
Weighted-average exercise price of stock options	\$38.74	\$33.46	\$33.50	\$39.29
Weighted-average grant-date fair value of stock options	\$11.52	\$ 9.84	\$ 9.49	\$11.58
Assumptions:				
Weighted-average expected volatility	30.5%	30.2%	30.9%	28.6%
Weighted-average expected term (in years)	5.1	5.0	5.1	5.0
Risk-free interest rate	4.9%	5.1%	4.6%	4.4%

Expected dividend yield	1.86%	1.92%	2.15%	1.24%
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Expected volatility - The Company is responsible for estimating volatility and has considered a number of factors, including third-party estimates, when estimating volatility. For options granted prior to fiscal 2005, the Company used historical volatility to estimate the grant-date fair value of stock options. The Company changed its method of estimating expected volatility for all stock options granted after fiscal 2004 from exclusively relying on historical volatility to exclusively relying on implied volatility. This change was the result of a thorough review the Company undertook, which included consultations with several third-party advisors. The Company currently believes that the exclusive use of implied volatility results in a more accurate estimate of the grant-date fair value of employee stock options because it more appropriately reflects the market's current expectations of future volatility. Historical volatility during the period commensurate with the expected term of the Company's stock options over the past several years included a period of time when the Company's stock price experienced unprecedented increases and subsequent declines. The Company believes that this past stock price volatility is unlikely to be indicative of future stock price behavior. Options in the Company's common stock are actively traded on several exchanges. Implied volatility is calculated for the period that is commensurate with the option's expected term assumption. Because this term often exceeds the period for which there are exchange-traded options in the Company's common stock, statistical techniques are used to derive the implied volatility for traded options with terms commensurate with the option's expected term of 5.1 years. This calculation of implied volatility is derived from the closing prices of both the Company's common stock and exchange-traded options from the most recent five trading days prior to the grant date of the employee stock option.

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

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

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

Stock-Based Compensation Expense

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

The amount of stock-based compensation recognized during a period is based on the value of the portion of the awards that are ultimately expected to vest. SFAS 123R requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. The term "forfeitures" is distinct from cancellations or expirations and represents only the unvested portion of the surrendered stock-based award. Based on an analysis of its historical forfeitures, the Company has applied an annual forfeiture rate of 4.3% to all unvested stock-based awards as of August 4, 2007. The rate of 4.3% represents the portion that is expected to be forfeited each year over the vesting period. This analysis is re-evaluated quarterly and the forfeiture rate is adjusted as necessary. Ultimately, the actual expense recognized over the vesting period will only be for those awards that vest. The adoption of SFAS 123R had the following impact on the third quarter of fiscal 2007 results: operating profit before tax was lower by \$17.2 million, net income was lower by \$12.2 million, cash flow from operations was lower by \$3.6 million, cash flow from financing activities was higher by \$3.6 million and basic and diluted EPS were each lower by \$0.04. The adoption of SFAS 123R had the following impact on results for the nine-months ended August 4, 2007: operating profit before tax was lower by \$54.5 million, net income was lower by \$38.7 million, cash flow from

operations was lower by \$25.1 million, cash flow from financing activities was higher by \$25.1 million and basic and diluted EPS were each lower by \$0.12.

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The adoption of SFAS 123R had the following impact on the third quarter of fiscal 2006 results: operating profit before tax was decreased by \$19.0 million, net income was decreased by \$13.4 million, cash flow from operations was decreased by \$141.2 million, cash flow from financing activities was increased by \$141.2 million and basic and diluted EPS were each decreased by \$0.04. The adoption of SFAS 123R had the following impact on results for the nine months ended July 29, 2006: operating profit before tax was decreased by \$56.6 million, net income was decreased by \$40.3 million, cash flow from operations was decreased by \$156.0 million, cash flow from financing activities was increased by \$156.0 million and basic and diluted EPS were each decreased by \$0.11.

Stock-Based Compensation Activity

A summary of the activity under the Company's stock option plans as of August 4, 2007 and changes during the three- and nine-month periods then ended is presented below:

Quarter-to-Date Activity	Options Outstanding	Weighted- Average Exercise Price Per Share	Weighted- Average Remaining Contractual Term in Years	Aggregate Intrinsic Value
Options outstanding at May 5, 2007	83,187	\$ 35.08		
Options granted	109	\$ 38.74		
Options exercised	(969)	\$ 18.47		
Options forfeited	(243)	\$ 35.14		
Options expired	(386)	\$ 43.84		
Options outstanding at August 4, 2007	81,698	\$ 35.24	5.4	\$347,045
Options exercisable at August 4, 2007	54,670	\$ 35.30	4.2	\$286,904
Options vested or expected to vest at August 4, 2007 (1)	79,907	\$ 35.21	5.4	\$345,627

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

the unvested
options.

Fiscal Year-to-Date Activity	Options Outstanding	Weighted- Average Exercise Price Per Share
Options outstanding at October 28, 2006	84,461	\$ 34.09
Options granted	7,649	\$ 33.50
Options exercised	(6,450)	\$ 14.93
Options forfeited	(1,537)	\$ 35.12
Options expired	(2,425)	\$ 44.00
Options outstanding at August 4, 2007	81,698	\$ 35.24

During the three and nine months ended August 4, 2007, the total intrinsic value of options exercised (i.e., the difference between the market price at exercise and the price paid by the employee to exercise the options) was \$19.8 million and \$136.2 million, respectively, and the total amount of cash received from exercise of these options was \$17.9 million and \$96.2 million, respectively. The total grant-date fair value of stock options that vested during the three and nine months ended August 4, 2007 was approximately \$1.0 million and \$39.5 million, respectively. During the three and nine months ended July 29, 2006, the total intrinsic value of options exercised was \$9.3 million and \$96.3 million, respectively, and the total amount of cash received from exercise of these options was \$8.2 million and \$68.0 million, respectively. The total grant-date fair value of stock options that vested during the three and nine months ended July 29, 2006 was approximately \$1.0 million and \$108.7 million, respectively.

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A summary of the Company's restricted stock and restricted stock unit awards activity as of August 4, 2007 and changes during the three- and nine- month periods then ended is presented below:

Quarter-to-Date Activity	Restricted Shares Outstanding	Weighted- Average Grant Date Fair Value Per Share
Non-vested shares outstanding at May 5, 2007	62	\$ 34.29
Awards and/or units granted	4	\$ 39.13
Restrictions lapsed	(3)	\$ 32.33
Awards and/or units forfeited		
Non-vested shares outstanding at August 4, 2007	63	\$ 34.67

Fiscal Year-to-Date Activity	Restricted Shares Outstanding	Weighted- Average Grant Date Fair Value Per Share
Non-vested shares outstanding at October 28, 2006	55	\$ 35.35
Awards and/or units granted	22	\$ 34.44
Restrictions lapsed	(14)	\$ 37.01
Awards and/or units forfeited		
Non-vested shares outstanding at August 4, 2007	63	\$ 34.67

As of August 4, 2007, there was \$163.9 million (before tax consideration) of total unrecognized compensation cost related to unvested share-based awards, including stock options, restricted stock and restricted stock units. That cost is expected to be recognized over a weighted-average period of 1.8 years.

Note 3 Comprehensive Income

Components of comprehensive income include net income and certain transactions that have generally been reported in the consolidated statement of shareholders' equity and consist of the following:

	Three Months Ended	
	August 4, 2007	July 29, 2006
Net income	\$ 120,435	\$ 144,685
Foreign currency translation adjustments	773	(131)
Change in unrealized holding gains (net of taxes of \$510 and \$1,099, respectively) on securities classified as short-term investments	947	2,040
Change in unrealized holding gains (losses) (net of taxes of \$5 and \$144, respectively) on securities classified as other investments	9	(268)

Change in unrealized (losses) gains on derivative instruments designated as cash flow hedges	(850)	885
Other comprehensive income	879	2,526
Comprehensive income	\$ 121,314	\$ 147,211

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	Nine Months Ended	
	August 4, 2007	July 29, 2006
Net income	\$ 399,018	\$ 411,063
Foreign currency translation adjustments	5,826	575
Change in unrealized holding gains (net of taxes of \$2,480 and \$2,645, respectively) on securities classified as short-term investments	4,596	4,911
Change in unrealized holding losses (net of taxes of \$75 and \$248, respectively) on securities classified as other investments	(139)	(461)
Change in unrealized gains on derivative instruments designated as cash flow hedges	3,038	7,944
Other comprehensive income	13,321	12,969
Comprehensive income	\$ 412,339	\$ 424,032

The components of accumulated other comprehensive income (loss) at August 4, 2007 and October 28, 2006 consisted of the following:

	August 4, 2007	October 28, 2006
Foreign currency translation adjustment	\$ 15,240	\$ 9,414
Unrealized losses on available-for-sale securities	(914)	(5,371)
Unrealized gains on derivative instruments	3,457	419
Minimum pension liability adjustment	(4,669)	(4,669)
Total accumulated other comprehensive income (loss)	\$ 13,114	\$ (207)

Note 4 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 potential future issuances of common stock relating to stock option programs and other potentially dilutive securities using the treasury stock method. In calculating diluted earnings per share, the dilutive effect of stock options is computed using the average market price for the respective period. In addition, under SFAS 123R, the assumed proceeds under the treasury stock method include the average unrecognized compensation expense of stock options that are in-the-money. This results in the assumed buyback of additional shares, thereby reducing the dilutive impact of stock options. Potential shares related to certain of the Company's outstanding stock options were excluded because they were anti-dilutive. Those potential shares, determined based on the weighted-average exercise prices during the respective periods, related to the Company's outstanding stock options could be dilutive in the future. The following table sets forth the computation of basic and diluted earnings per share:

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	Three Months Ended	
	August 4, 2007	July 29, 2006
Basic:		
Net income	\$ 120,435	\$ 144,685
Weighted-average shares outstanding	318,465	357,887
Earnings per share	\$ 0.38	\$ 0.40
Diluted:		
Net income	\$ 120,435	\$ 144,685
Weighted-average shares outstanding	318,465	357,887
Assumed exercise of common stock equivalents	8,866	11,655
Weighted-average common and common equivalent shares	327,331	369,542
Earnings per share	\$ 0.37	\$ 0.39
Anti-dilutive common stock equivalents related to outstanding stock options	40,064	56,118
	Nine Months Ended	
	August 4, 2007	July 29, 2006
Basic:		
Net income	\$ 399,018	\$ 411,063
Weighted-average shares outstanding	329,050	362,749
Earnings per share	\$ 1.21	\$ 1.13
Diluted:		
Net income	\$ 399,018	\$ 411,063
Weighted-average shares outstanding	329,050	362,749
Assumed exercise of common stock equivalents	9,410	12,814
Weighted-average common and common equivalent shares	338,460	375,563

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Earnings per share	\$ 1.18	\$ 1.09
Anti-dilutive common stock equivalents related to outstanding stock options	49,568	50,813

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

Income Statement	Closure of Wafer Fabrication Facility	Reorganization of Product Development and Support Programs	Total Special Charges
Fiscal 2005 Charges:			
Workforce reductions	\$ 20,315	\$ 11,165	\$ 31,480
Total Fiscal 2005 Charges	\$ 20,315	\$ 11,165	\$ 31,480
Fiscal 2006 Charges:			
Facility closure costs	\$	\$ 554	\$ 554
Abandonment of equipment		459	459
Other items		462	462
Change in estimate	(2,029)		(2,029)
Workforce reductions		2,344	2,344
Total Fiscal 2006 Charges	\$ (2,029)	\$ 3,819	\$ 1,790
Fiscal 2007 Charges:			
Facility closure costs	\$ 10,288	\$	\$ 10,288
Workforce reductions		4,165	4,165
Other items		859	859
Total Fiscal 2007 Charges	\$ 10,288	\$ 5,024	\$ 15,312
Accrued Restructuring			
Balance at October 28, 2006	\$ 5,903	\$ 4,976	\$ 10,879
Special Charges	3,608	1,588	5,196
Severance payments	(4,205)	(1,485)	(5,690)
Facility closure costs	(3,251)		(3,251)

Balance at February 3, 2007	\$	2,055	\$	5,079	\$	7,134
Special Charges		6,680		3,436		10,116
Severance payments		(987)		(1,340)		(2,327)
Facility closure costs		(1,979)		(208)		(2,187)
Balance at May 5, 2007	\$	5,769	\$	6,967	\$	12,736
Severance payments		(245)		(1,101)		(1,346)
Facility closure costs		(789)		(243)		(1,032)
Balance at August 4, 2007	\$	4,735	\$	5,623	\$	10,358

Closure of Wafer Fabrication Facility

During the fourth quarter of fiscal 2005, the Company recorded a special charge of \$20.3 million as a result of a decision to close its California wafer fabrication operations and transfer virtually all of the production of products manufactured there to the Company's facility in Wilmington, Massachusetts. The charge was for severance and fringe benefit costs that were recorded pursuant to SFAS 88, *Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits* (SFAS 88), under the Company's ongoing benefit plan for 339 manufacturing employees and 28 general and administrative employees at that site. The severance benefit was calculated based on length of past service, and employees had to continue to be employed until they were involuntarily terminated in order to receive the severance benefit. The Company completed the remaining cleanup and closure activities during the second quarter of fiscal 2007. The employment of all of the employees included in this action has been terminated by the Company.

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

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

Reorganization of Product Development and Support Programs

During the fourth quarter of fiscal 2005, the Company recorded a special charge of \$11.2 million as a result of its decision to reorganize its product development and support programs with the goal of providing greater focus on its analog and digital signal processing product programs. The charge was for severance and fringe benefit costs that were recorded pursuant to SFAS 88 under the Company's ongoing benefit plan or statutory requirements at foreign locations for 60 manufacturing employees and 154 engineering and selling, marketing, general and administrative employees.

During fiscal 2006, the Company recorded an additional special charge of \$3.8 million related to this reorganization action. Approximately \$1.5 million of this charge was for lease obligation costs for a facility the Company ceased using during the first quarter of fiscal 2006 and the write-off of property, plant and equipment and other items at this facility. The remaining \$2.3 million related to severance and fringe benefit costs that were recorded in the fourth quarter pursuant to SFAS 88 under the Company's ongoing benefit plan or statutory requirements at foreign locations for 46 engineering and selling, marketing, general and administrative employees.

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

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

As of August 4, 2007, eight of the 286 employees included in this reorganization action were still employed by the Company. These employees must continue to be employed until they are involuntarily terminated in order to receive the severance benefit.

Note 6 Segment Information

The Company operates and tracks its results in one reportable segment. The Company designs, develops, manufactures and markets a broad range of integrated circuits. The Chief Executive Officer has been identified as the Chief Operating Decision Maker as defined by SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information*.

Table of Contents*Revenue Trends by End Market*

The categorization of revenue by end market is determined using a variety of data points including the technical characteristics of the product, the sold to customer information, the ship to customer information and the end customer product or application into which the Company's product will be incorporated. As data systems for capturing and tracking this data evolve and improve, the categorization of products by end market can vary over time. When this occurs the Company reclassifies revenue by end market for prior periods. Such reclassifications typically do not materially change the sizing of, or the underlying trends of results within, each end market.

	Three Months Ended August 4, 2007			Three Months Ended July 29, 2006	
	Revenue	% of Total Product Revenue	Y/Y%	Revenue	% of Total Product Revenue
Industrial	\$ 293,557	43%	3%	\$ 285,334	43%
Communications	191,082	28%	(4%)	198,414	30%
Consumer	136,577	20%	24%	110,270	17%
Computer	59,096	9%	(15%)	69,642	10%
Total Product Revenue	\$ 680,312	100%	3%	\$ 663,660	100%

	Nine Months Ended August 4, 2007			Nine Months Ended July 29, 2006	
	Revenue	% of Total Product Revenue	Y/Y%	Revenue	% of Total Product Revenue
Industrial	\$ 880,827	44%	8%	\$ 818,728	43%
Communications	550,960	27%	(5%)	578,512	30%
Consumer	398,597	20%	27%	314,412	16%
Computer	175,674	9%	(19%)	217,182	11%
Total Product Revenue	\$ 2,006,058	100%	4%	\$ 1,928,834	100%

One-time payment associated with
the licensing of IP*

35,000

Total Revenue	\$ 2,041,058			\$ 1,928,834	
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* During the first quarter of fiscal 2007, the Company recorded revenue of \$35 million

received in
exchange for
licensing of
certain
intellectual
property rights
to a third party.

Table of Contents*Revenue Trends by Product*

The following table summarizes revenue by product categories. The categorization of the Company's products into broad categories is based on the characteristics of the individual products, the specification of the products and in some cases the specific uses that certain products have within applications. The categorization of products into categories is therefore subject to judgment in some cases and can vary over time. In instances where products move between product categories the Company reclassifies the amounts in the product categories for all prior periods. Such reclassifications typically do not materially change the sizing of, or the underlying trends of results within, each product category.

	Three Months Ended August 4, 2007			Three Months Ended July 29, 2006	
	Revenue	% of Total Product Revenue	Y/Y %	Revenue	% of Total Product Revenue
Converters	\$ 281,530	41%	5%	\$ 268,949	41%
Amplifiers	144,103	21%	4%	138,634	21%
Power management & reference	50,019	7%	(8%)	54,661	8%
Other analog	98,020	15%	34%	73,102	11%
Total analog products	\$ 573,672	84%	7%	\$ 535,346	81%
General purpose DSP	52,891	8%	(1%)	53,187	8%
Wireless Chipsets	45,030	7%	(33%)	66,975	10%
Other DSP	8,719	1%	7%	8,152	1%
Total DSP products	\$ 106,640	16%	(17%)	\$ 128,314	19%
Total Product Revenue	\$ 680,312	100%	3%	\$ 663,660	100%

	Nine Months Ended August 4, 2007			Nine Months Ended July 29, 2006	
	Revenue	% of Total Product Revenue	Y/Y %	Revenue	% of Total Product Revenue
Converters	\$ 819,850	41%	8%	\$ 758,438	39%
Amplifiers	419,018	21%	7%	390,982	20%
Power management & reference	148,278	7%	(10%)	163,957	9%
Other analog	289,995	15%	32%	219,930	11%
Total analog products	\$ 1,677,141	84%	9%	\$ 1,533,307	79%
General purpose DSP	158,038	8%	5%	150,511	8%
Wireless Chipsets	147,337	7%	(27%)	201,895	11%
Other DSP	23,542	1%	(45%)	43,121	2%
Total DSP products	\$ 328,917	16%	(17%)	\$ 395,527	21%

Total Product Revenue	\$ 2,006,058	100 %	4 %	\$ 1,928,834	100 %
One-time payment associated with the licensing of IP*	35,000				
Total Revenue	\$ 2,041,058			\$ 1,928,834	

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

Table of Contents*Revenue Trends by Geographic Region*

Product revenue by geographic region, based upon point of sale, for the three- and nine-month periods ended August 4, 2007 and July 29, 2006 are as follows:

Region	Three Months Ended		Nine Months Ended	
	August 4, 2007	July 29, 2006	August 4, 2007	July 29, 2006
United States	\$ 155,839	\$ 164,842	\$ 487,425	\$ 487,103
Europe	154,252	148,721	452,733	422,749
Japan	130,100	123,169	385,677	360,501
China	109,546	90,178	288,136	256,773
Rest of Asia	130,575	136,750	392,087	401,708
Total Product Revenue	\$ 680,312	\$ 663,660	\$ 2,006,058	\$ 1,928,834

Note 7 Goodwill and Intangible Assets*Goodwill*

The Company evaluates goodwill for impairment annually as well as whenever events or changes in circumstances suggest that the carrying value of goodwill may not be recoverable. Because the Company has one reporting segment under SFAS 142, the Company utilizes the entity-wide approach for assessing goodwill for impairment and compares its market value to its net book value to determine if an impairment exists. No impairment of goodwill resulted from the Company's most recent evaluation of goodwill for impairment, which occurred in the fourth quarter of fiscal 2006. No impairment of goodwill resulted in any of the fiscal periods presented. The Company's next annual impairment assessment will be made in the fourth quarter of fiscal 2007. The following table presents the changes in goodwill during the first nine months of fiscal 2007 and the fiscal year ended October 28, 2006:

	For the nine months ended August 4, 2007	For the fiscal year ended October 28, 2006
Balance at beginning of period	\$ 256,209	\$ 163,373
Acquisition of TTPCom assets(1)	4,273	812
Acquisition of Integrant Technologies(2)	13,282	80,641
Acquisition of AudioAsics		7,250
Foreign currency translation adjustment	3,208	4,133
Balance at end of period	\$ 276,972	\$ 256,209

(1) The Company paid its final milestone related to this acquisition in the second quarter of fiscal 2007.

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

Intangible Assets

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

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

	August 4, 2007		October 28, 2006	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Technology-based	\$ 54,409	\$ 25,837	\$ 53,177	\$ 17,714
Tradename	1,670	1,296	1,635	995
Customer Relationships	7,194	2,532	6,920	707
Other	6,585	6,300	6,617	6,125
Total	\$ 69,858	\$ 35,965	\$ 68,349	\$ 25,541

Intangible assets acquired prior to the third quarter of fiscal 2006 continue to be amortized on a straight-line basis over their estimated useful lives, which range from five to ten years. The \$43.1 million of intangible assets acquired during the third and fourth quarters of fiscal 2006 are being amortized over their estimated useful lives of five years using an accelerated method of amortization that is expected to reflect the estimated pattern of economic use. The remaining amortization expense will be recognized over a weighted-average period of approximately 1.7 years. Amortization expense related to intangibles was \$3.2 million and \$1.1 million for the three-month periods ended August 4, 2007 and July 29, 2006, respectively, and \$10.0 million and \$2.0 million for the nine-month periods ended August 4, 2007 and July 29, 2006, respectively.

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

Fiscal Year	Amortization Expense
Remainder of 2007	\$ 3,117
2008	\$ 12,477
2009	\$ 9,426
2010	\$ 5,924
2011	\$ 2,761
2012	\$ 188

Note 8 Pension Plans

The Company has various defined benefit pension and other retirement plans for certain non-U.S. employees that are consistent with local statutory requirements and practices. The Company's funding policy for its foreign defined benefit pension plans is consistent with the local requirements of each country. The plans' assets consist primarily of U.S. and non-U.S. equity securities, bonds, property and cash.

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

	Three Months Ended	
	August 4, 2007	July 29, 2006
Service cost	\$ 2,799	\$ 2,712
Interest cost	2,251	1,850
Expected return on plan assets	(2,428)	(1,819)
Amortization of prior service cost	2	30
Amortization of transitional asset	(10)	(7)
Recognized actuarial loss	206	398
Net periodic pension cost	\$ 2,820	\$ 3,164

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	Nine Months Ended	
	August 4, 2007	July 29, 2006
Service cost	\$ 8,267	\$ 7,836
Interest cost	6,704	5,344
Expected return on plan assets	(7,239)	(5,256)
Amortization of prior service cost	6	86
Amortization of transitional asset	(27)	(20)
Recognized actuarial loss	605	1,146
Net periodic pension cost	\$ 8,316	\$ 9,136

Pension contributions of \$2.0 million and \$6.3 million were made by the Company during the three and nine months ended August 4, 2007, respectively. The Company presently anticipates contributing an additional \$1.6 million to fund its defined benefit pension plans in fiscal year 2007 for a total of \$7.9 million.

Note 9 Product Warranties

The Company generally offers a 12-month warranty for its products. The Company's warranty policy provides for replacement of the defective product. Specific accruals are recorded for known product warranty issues. Product warranty expenses were not material during any of the three- and nine-month periods ended August 4, 2007 and July 29, 2006.

Note 10 Commitments and Contingencies*Tentative Settlement of the SEC's Previously Announced Stock Option Investigation*

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

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

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

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

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

denying the Commission's findings.

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The Company has determined that no restatement of its historical financial results would be necessary due to the proposed settlement.

Other Legal Proceedings

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

On May 25, 2006, the Company filed a lawsuit in United States District Court for the District of Delaware against Linear Technology Corp. (LTC), alleging infringement of three Company patents by LTC's making, selling and using various products. In addition, the Company also sought a declaratory judgment that its products do not infringe eight patents allegedly owned by LTC (the LTC patents) and that the LTC patents are invalid. On July 28, 2006, LTC filed an answer and counterclaims, denying that its products infringe the asserted Company patents and asking the court to declare such patents invalid. LTC also claimed that the Company, by making, selling and using various power management products, is infringing seven of the eight LTC patents. LTC seeks damages in an unspecified amount and injunctive relief. On August 21, 2006, the Company filed its answer to LTC's counterclaims, denying all liability to LTC. The case is currently in the discovery phase and trial is scheduled to begin in June 2008. The Company intends to vigorously pursue its claims against LTC, and to vigorously defend against LTC's counterclaims. The Company is unable at this time to predict the outcome of this litigation; however, the Company believes that the final disposition of this matter will not have a material adverse effect on the Company or its financial position.

On October 13, 2006, a purported class action complaint was filed in the United States District Court for the District of Massachusetts on behalf of participants in the Company's Investment Partnership Plan from October 5, 2000 to the present. The complaint named as defendants the Company, certain officers and directors, and the Company's Investment Partnership Plan Administration Committee. The complaint alleges purported violations of federal law in connection with the Company's option granting practices during the years 1998, 1999, 2000, and 2001, including breaches of fiduciary duties owed to participants and beneficiaries of the Company's Investment Partnership Plan under the Employee Retirement Income Security Act. The complaint seeks unspecified monetary damages, as well as equitable and injunctive relief. The Company intends to vigorously defend against these allegations. On November 22, 2006, the Company and the individual defendants filed motions to dismiss the complaint. On January 8, 2007, the Plaintiff filed memoranda in opposition. On January 22, 2007, the Company and the individual defendants filed further memoranda in support of the motions to dismiss. Although the Company believes it has meritorious defenses to the asserted claims, it is unable at this time to predict the outcome of this proceeding.

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

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

Note 11 Common Stock Repurchase

Since August 2004, the Company has had a common stock repurchase program in place. On December 6, 2006 the Board of Directors authorized the repurchase by the Company of an additional \$1 billion of the Company's common stock, increasing the total amount of the Company's common stock the Company is authorized to repurchase from \$2 billion to \$3 billion. On June 6, 2007 the Board of Directors authorized the repurchase by the Company of an additional \$1 billion of the Company's common stock, increasing the total amount of the Company's common stock the Company is authorized to repurchase from \$3 billion to \$4 billion. Under the repurchase program, the Company may repurchase outstanding shares of its common stock from time to time in the open market and through privately

negotiated transactions. Unless terminated earlier by resolution of

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the Company's Board of Directors, the repurchase program will expire when the Company has repurchased all shares authorized under the program. The Company repurchased approximately 16.9 million shares for approximately \$631.7 million during the third quarter of fiscal 2007. As of August 4, 2007 the Company had repurchased a total of approximately 86.4 million shares of its common stock for approximately \$3.0 billion under this program. The repurchased shares are held as authorized but unissued shares of common stock.

Note 12 Related Party Transactions

One of the Company's directors, who has served on the Company's Board of Directors since 1988, became a director of Taiwan Semiconductor Manufacturing Company, or TSMC, in fiscal 2002 and continues to serve as a director of TSMC. Management believes the terms and prices for the purchases of products from TSMC are not affected by the presence of one of the Company's directors on the Board of Directors of TSMC. The Company purchased approximately \$72 million and \$76 million of products from TSMC during the three-month periods ended August 4, 2007 and July 29, 2006, respectively, and approximately \$224 million and \$217 million during the nine-month periods ended August 4, 2007 and July 29, 2006, respectively. Approximately \$34 million and \$17 million was payable to TSMC as of August 4, 2007 and October 28, 2006, respectively. Management anticipates that it will make significant purchases from TSMC in the remaining quarter of fiscal year 2007.

Note 13 New Accounting Standards*Accounting for Financial Assets and Financial Liabilities*

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

Accounting for Prior Year Misstatements

In September 2006, the SEC issued Staff Accounting Bulletin (SAB) No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements* (SAB 108). This SAB provides guidance on the consideration of the effects of prior year misstatements in quantifying current year misstatements for the purpose of a materiality assessment. SAB 108 establishes an approach that requires quantification of financial statement errors based on the effects on each of the company's balance sheet and statement of operations and the related financial statement disclosures. SAB 108 permits existing public companies to record the cumulative effect of initially applying this approach in the first year ending after November 15, 2006 by recording the necessary correcting adjustments to the carrying values of assets and liabilities as of the beginning of that year with the offsetting adjustment recorded to the opening balance of retained earnings. Additionally, the use of the cumulative effect transition method requires detailed disclosure of the nature and amount of each individual error being corrected through the cumulative adjustment and how and when it arose. The adoption of SAB 108 in the first quarter of fiscal 2007 did not have any impact on the Company's financial statements.

Accounting for Defined Benefit Pension and Other Postretirement Plans

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

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Accounting for Uncertainty in Income Taxes

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

Note 14 Income Taxes

The Company's income tax payable at August 4, 2007 was approximately \$129.3 million, which included approximately \$121.4 million for current U.S. federal, state and foreign tax filings. The remaining \$7.9 million of income tax payable is for various other income taxes.

During fiscal year 2006, the United States Internal Revenue Service (IRS) invited the Company to participate in the Compliance Assurance Process (CAP) which is a voluntary pilot program the IRS is conducting for a limited number of large business taxpayers. The objective of CAP is to reduce taxpayer burden associated with IRS audits while assuring the IRS of the accuracy of tax returns prior to filing. The Company has agreed to participate in CAP for fiscal 2006 and fiscal 2007. Under the program, the IRS will contemporaneously work with the Company to achieve federal tax compliance and resolve issues prior to the filing of a tax return. CAP is designed to eliminate or substantially reduce the need for post-filing examinations of future tax returns. The routine audit of fiscal years 2004 and 2005 is currently underway.

Note 15 Maxim Litigation Settlement

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

Note 16 Subsequent Event

On August 20, 2007, the Company's Board of Directors declared a cash dividend of \$0.18 per outstanding share of common stock. The dividend will be paid on September 19, 2007 to all shareholders of record at the close of business on August 31, 2007.

Table of Contents**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 on Form 10-Q and the audited consolidated financial statements and related notes and Management's Discussion and Analysis of Financial Condition and Results of Operations contained in our Annual Report on Form 10-K for the fiscal year ended October 28, 2006.

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

Results of Operations

(all tabular amounts in thousands except per share amounts and percentages)

Overview

	Three Months Ended		Nine Months Ended	
	August 4, 2007	July 29, 2006	August 4, 2007	July 29, 2006
Total Revenue	\$680,312	\$663,660	\$2,041,058	\$1,928,834
Gross Margin %	57.1%	58.8%	58.2%	58.7%
Net Income	\$120,435	\$144,685	\$399,018	\$411,063
Net Income as a % of Total Revenue	17.7%	21.8%	19.5%	21.3%
Diluted EPS	\$0.37	\$0.39	\$1.18	\$1.09

Fiscal 2007 is a 53-week year and fiscal 2006 was a 52-week year. The additional week in fiscal 2007 was included in the first quarter ended February 3, 2007. Therefore, the first nine months of fiscal 2007 included an additional week of operations as compared to the first nine months of fiscal 2006.

Revenue

Revenue in the third quarter of fiscal 2007 increased by \$16.7 million, or 3%, from the amount recorded in the third quarter of fiscal 2006. This increase by end market and by product category is outlined below under *Revenue Trends by End Market* and *Revenue Trends by Product*. Revenue increased by \$112.2 million, or 6%, in the nine months ended August 4, 2007 from the comparable period in fiscal 2006. This was primarily the result of an additional week of operations in the first quarter of fiscal 2007 as compared to fiscal 2006 and \$35 million in revenue we recorded in the first quarter of fiscal 2007 in exchange for the licensing of certain intellectual property rights.

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The categorization of revenue by end market is determined using a variety of data points including the technical characteristics of the product, the sold to customer information, the ship to customer information and the end customer product or application into which our product will be incorporated. As data systems for capturing and tracking this data evolve and improve, the categorization of products by end market can vary over time. When this occurs, we reclassify revenue by end market for prior periods. Such reclassifications typically do not materially change the sizing of, or the underlying trends of results within, each end market.

	Three Months Ended August 4, 2007			Three Months Ended July 29, 2006	
	Revenue	% of Total Product Revenue	Y/Y%	Revenue	% of Total Product Revenue
Industrial	\$ 293,557	43%	3%	\$ 285,334	43%
Communications	191,082	28%	(4%)	198,414	30%
Consumer	136,577	20%	24%	110,270	17%
Computer	59,096	9%	(15%)	69,642	10%
Total Product Revenue	\$ 680,312	100%	3%	\$ 663,660	100%

	Nine Months Ended August 4, 2007			Nine Months Ended July 29, 2006	
	Revenue	% of Total Product Revenue	Y/Y%	Revenue	% of Total Product Revenue
Industrial	\$ 880,827	44%	8%	\$ 818,728	43%
Communications	550,960	27%	(5%)	578,512	30%
Consumer	398,597	20%	27%	314,412	16%
Computer	175,674	9%	(19%)	217,182	11%
Total Product Revenue	\$ 2,006,058	100%	4%	\$ 1,928,834	100%

One-time payment associated with
the licensing of IP*

35,000

Total Revenue **\$ 2,041,058** **\$ 1,928,834**

* During the first
quarter of fiscal
2007, we
recorded
revenue of
\$35 million
received in

exchange for
licensing of
certain
intellectual
property rights
to a third party.

Industrial The year-to-year increases in both the three- and nine-month periods were primarily the result of revenue growth in products sold into the automotive area of the industrial end market. The year-to-year increase in the nine-month period was also attributable to an increase in sales to the instrumentation portion of this end market.

Communications The year-to-year decreases in both the three- and nine-month periods were a result of a decline in handset chipsets sales as compared to the same periods of fiscal 2006. These decreases were partially offset by an increase in revenue from the wireless basestation end market. The year-to-year decrease in the nine-month period was also attributable to the loss of revenue from our DSP-based DSL ASIC and network processor product line that we sold in the second quarter of fiscal 2006.

Consumer The year-to-year increases in both the three- and nine-month periods were primarily the result of increased sales of our products into digital home applications, including advanced television systems and video game applications, during fiscal 2007.

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Computer The year-to-year decreases in both the three- and nine-month periods were partially the result of refocusing our power management portfolio toward portable devices and partially attributable to an overall weak personal computer market in fiscal 2007.

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

Revenue Trends by Product

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

	Three Months Ended August 4, 2007			Three Months Ended July 29, 2006	
	Revenue	% of Total Product Revenue	Y/Y %	Revenue	% of Total Product Revenue
Converters	\$ 281,530	41%	5%	\$ 268,949	41%
Amplifiers	144,103	21%	4%	138,634	21%
Power management & reference	50,019	7%	(8%)	54,661	8%
Other analog	98,020	15%	34%	73,102	11%
Total analog products	\$ 573,672	84%	7%	\$ 535,346	81%
General purpose DSP	52,891	8%	(1%)	53,187	8%
Wireless Chipsets	45,030	7%	(33%)	66,975	10%
Other DSP	8,719	1%	7%	8,152	1%
Total DSP products	\$ 106,640	16%	(17%)	\$ 128,314	19%
Total Product Revenue	\$ 680,312	100%	3%	\$ 663,660	100%

	Nine Months Ended August 4, 2007			Nine Months Ended July 29, 2006	
	Revenue	% of Total Product Revenue	Y/Y %	Revenue	% of Total Product Revenue
Converters	\$ 819,850	41%	8%	\$ 758,438	39%
Amplifiers	419,018	21%	7%	390,982	20%
Power management & reference	148,278	7%	(10%)	163,957	9%
Other analog	289,995	15%	32%	219,930	11%
Total analog products	\$ 1,677,141	84%	9%	\$ 1,533,307	79%
General purpose DSP	158,038	8%	5%	150,511	8%

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Wireless Chipsets	147,337	7%	(27%)	201,895	11%
Other DSP	23,542	1%	(45%)	43,121	2%
Total DSP products	\$ 328,917	16%	(17%)	\$ 395,527	21%
Total Product Revenue	\$ 2,006,058	100%	4%	\$ 1,928,834	100%
One-time payment associated with the licensing of IP*	35,000				
Total Revenue	\$ 2,041,058			\$ 1,928,834	

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

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The significant changes in our revenue trends by product type in the three- and nine-month periods of fiscal 2007 as compared to the same periods of fiscal 2006 were the year-to-year increase in our other analog product category, primarily as a result of increased sales of products used in video game applications and a decline in products used in wireless chipsets, which is a function of the significant volatility in demand for products in the wireless chipset category. The power management and reference product category was lower in the three- and nine-month periods of fiscal 2007 as compared to fiscal 2006 partially as a result of refocusing our power management portfolio towards portable devices and partially attributable to an overall weak personal computer market in fiscal 2007. The year-to-year decline in sales for the nine-month period of fiscal 2007 as compared to the same period of fiscal 2006 in the other DSP product category was primarily attributable to the loss of revenue from our DSP-based DSL ASIC and network processor product line that we sold in the second quarter of fiscal 2006.

Revenue Trends by Geographic Region

Product revenue by geographic region, based upon point of sale, for the three- and nine-month periods ended August 4, 2007 and July 29, 2006 are as follows:

Region	Three Months Ended		Nine Months Ended	
	August 4, 2007	July 29, 2006	August 4, 2007	July 29, 2006
United States	\$ 155,839	\$ 164,842	\$ 487,425	\$ 487,103
Europe	154,252	148,721	452,733	422,749
Japan	130,100	123,169	385,677	360,501
China	109,546	90,178	288,136	256,773
Rest of Asia	130,575	136,750	392,087	401,708
Total Product Revenue	\$ 680,312	\$ 663,660	\$ 2,006,058	\$ 1,928,834

Gross Margin

	Three Months Ended		Nine Months Ended	
	August 4, 2007	July 29, 2006	August 4, 2007	July 29, 2006
Gross Margin	\$ 388,585	\$ 390,110	\$ 1,187,243	\$ 1,131,568
Gross Margin %	57.1%	58.8%	58.2%	58.7%

Gross margin percentage decreased 170 basis points in the third quarter of fiscal 2007 compared to the third quarter of fiscal 2006. This decrease in gross margin percentage was primarily the result of higher sales in the third quarter of fiscal 2007 of products used in consumer electronics, which currently earn relatively lower gross margins than our average products. Gross margin percentage was lower by 50 basis points in the nine months ended August 4, 2007 as compared to the same period of fiscal 2006, as the higher sales of our lower margin consumer products during the first nine months of fiscal 2007 was partially offset by the \$35 million in revenue recorded in the first quarter of fiscal 2007 in exchange for licensing of certain intellectual property rights to a third party with no associated cost of sales.

Stock-Based Compensation Expense

During the first quarter of fiscal 2006, on October 30, 2005, we adopted the Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment*, or SFAS 123R, using the modified prospective application method. Compensation cost is calculated on the date of grant using the fair value of the options as calculated using the Black-Scholes valuation model. The Black-Scholes valuation model requires us to make several assumptions. One of the key assumptions is expected volatility. For options granted prior to fiscal 2005, we used historical volatility to estimate the grant-date fair value of stock options. We changed our method of estimating expected volatility for all stock options granted after fiscal 2004 from exclusively relying on historical volatility to exclusively relying on implied volatility. This change was the result of a thorough review we undertook that included consultations with several third-party advisors. We currently believe that the exclusive use of implied

volatility results in a more accurate estimate of the grant-date fair value of employee stock options because it more appropriately reflects the market's expectations of future volatility. Historical volatility during the period commensurate with the expected term of our stock options over the past

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several years included a period of time during which our stock price experienced unprecedented increases and subsequent declines. We believe that this past stock price volatility is unlikely to be indicative of future stock price behavior.

In the third quarter of fiscal 2007, we recognized \$17.2 million of stock-based compensation expense, or 2.5% of product revenue, as a result of the adoption of SFAS 123R. The adoption of SFAS 123R reduced diluted EPS for the third quarter of fiscal 2007 by \$0.04. For the nine months ended August 4, 2007, we recognized \$54.5 million of stock-based compensation expense, or 2.7% of product revenue, as a result of the adoption of SFAS 123R. The adoption of SFAS 123R reduced diluted EPS for the nine-month period ended August 4, 2007 by \$0.12. We expect that stock-based compensation related to our adoption of SFAS 123R will reduce diluted EPS by approximately \$0.04 in the fourth quarter of fiscal 2007.

As of August 4, 2007, the total compensation cost related to unvested awards not yet recognized in the statement of income was approximately \$163.9 million (before tax consideration), which we expect to recognize over a weighted-average period of 1.8 years.

See Note 2 to our Consolidated Financial Statements contained in Item 1 of this Quarterly Report on Form 10-Q for further information regarding our adoption of SFAS 123R.

Research and Development