ANALOG DEVICES INC
Form 10-K
November 25, 2008

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

(Mark One)

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

For the fiscal year ended November 1, 2008

OR

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

For the transition period from to

Commission File No. 1-7819
Analog Devices, Inc.
(Exact name of registrant as specified in its charter)

Massachusetts	**04-2348234**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
One Technology Way, Norwood, MA	**02062-9106**
(Address of principal executive offices)	*(Zip Code)*

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

Securities registered pursuant to Section 12(b) of the Act:

Common Stock $0.162/3 Par Value	**New York Stock Exchange**
Title of Each Class	*Name of Each Exchange on Which Registered*

Securities registered pursuant to Section 12(g) of the Act:

None
Title of Class

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES þ NO o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES o NO þ

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 for 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 þ NO o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer þ Accelerated filer o Non-accelerated filer o Smaller reporting company o
(Do not check if a smaller reporting company)

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

The aggregate market value of the voting and non-voting common equity held by nonaffiliates of the registrant was approximately $6,911,000,000 based on the last reported sale of the Common Stock on the New York Stock Exchange Composite Tape reporting system on May 3, 2008. Shares of voting and non-voting stock beneficially owned by executive officers, directors and holders of more than 5% of the outstanding stock have been excluded from this calculation because such persons or institutions may be deemed affiliates. This determination of affiliate status is not a conclusive determination for other purposes.

As of November 1, 2008 there were 291,193,451 shares of Common Stock, 0.16^{2}/_{3}$ par value per share, outstanding.

Documents Incorporated by Reference

Document Description	**Form 10-K Part**
Portions of the Registrant s Proxy Statement for the Annual Meeting of Shareholders to be held March 10, 2009	III

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PART I

ITEM 1. BUSINESS

Company Overview

We are a world leader in the design, manufacture and marketing of high-performance analog, mixed-signal and digital signal processing integrated circuits used in industrial, communication, computer and consumer applications. Since our inception in 1965, we have focused on solving the engineering challenges associated with signal processing in electronic equipment. Our signal processing products translate real-world phenomena such as light, sound, temperature, motion and pressure into electrical signals to be used in a wide array of electronic equipment. Used by over 60,000 customers worldwide, our products are embedded inside many types of electronic equipment including industrial process controls, factory automation systems, defense electronics, portable wireless communications devices, cellular basestations, central office networking equipment, computers, automobiles, medical imaging equipment, digital cameras and digital televisions. Signal processing technology is a critical element of high-speed communications, digital entertainment, and other consumer, computer and industrial applications. As new generations of digital applications evolve, they generate new needs for high-performance analog signal processing and digital signal processing, or DSP, technology. We produce a wide range of products that are designed to meet the signal processing technology needs of a broad base of customers.

During the first quarter of fiscal 2008, we completed the sale of our baseband chipset business and related support operations, or Baseband Chipset Business, to MediaTek Inc. and the sale of our CPU voltage regulation and PC thermal monitoring business to certain subsidiaries of ON Semiconductor Corporation. Accordingly, these operations have been presented as discontinued operations within the consolidated financial statements in accordance with Statement of Financial Accounting Standards No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets (SFAS 144)*. The financial statements and related footnote disclosures reflect the results of these businesses in discontinued operations, net of applicable income taxes for all reporting periods presented. Unless otherwise noted, the discussions contained in the Annual Report on Form 10-K relate only to results from continuing operations.

During our fiscal year ended November 1, 2008, or fiscal 2008, approximately 49% of our product revenue came from the industrial market, which includes factory automation, medical equipment, scientific instrumentation, automatic test equipment, automotive electronics, security equipment, and aerospace and defense systems.

Revenue from the communications market represented approximately 25% of our fiscal 2008 product revenue. Communications applications include basestations and wireless handsets, as well as products used for high-speed access to the Internet, including central office networking equipment.

Revenue from our products used in high-performance consumer electronics represented approximately 21% of our product revenue for fiscal 2008. Applications in this market include digital cameras and camcorders, flat-panel digital televisions, video game applications and surround sound audio systems.

We also serve the personal computer and network server markets with products that enable high-quality audio and products that monitor and manage power usage. In fiscal 2008, the computer market represented approximately 5% of our product revenue.

We sell our products worldwide through a direct sales force, third-party distributors and independent sales representatives and through our website. We have direct sales offices in 17 countries, including the United States.

We are headquartered near Boston, in Norwood, Massachusetts, and have manufacturing facilities in Massachusetts, Ireland and the Philippines. We were founded in 1965 and are incorporated in Massachusetts. As of November 1, 2008, we employed approximately 9,000 individuals worldwide. Our common stock is listed on the New York Stock Exchange under the symbol ADI and is included in the Standard & Poor s 500 Index.

We maintain a website with the address www.analog.com. We are not including the information contained on our website as a part of, or incorporating it by reference into, this Annual Report on Form 10-K. We make available free of charge through our website our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K (including exhibits), and amendments to these reports, as soon as reasonably practicable after

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we electronically file such material with, or furnish such material to, the Securities and Exchange Commission. We also make available on our website our corporate governance guidelines, the charters for our audit committee, compensation committee, and nominating and corporate governance committee, our stock option granting policies, our code of business conduct and ethics which applies to our directors, officers and employees, and our related person transaction policy, and such information is available in print and free of charge to any shareholder of Analog Devices who requests it. In addition, we intend to disclose on our website any amendments to, or waivers from, our code of business conduct and ethics that are required to be publicly disclosed pursuant to rules of the Securities and Exchange Commission or the New York Stock Exchange.

Industry Background

All electronic signals fall into one of two categories, analog or digital. Analog, also known as linear, signals represent real-world phenomena, such as temperature, pressure, sound, speed and motion. This information can be detected and measured using analog sensors by generating continuously-varying voltages and currents. The signals from these sensors are initially processed using analog methods, such as amplification, filtering and shaping. They are then usually converted to digital form for storage or further manipulation. The further manipulation of the signals after conversion to digital form is called digital signal processing. Digital signals represent the ones and zeros of binary arithmetic and are either on or off. Digital signals are frequently converted back to analog form for functions such as video display, audio output or control. We refer to these manipulations and transformations as real-world signal processing.

Significant developments in semiconductor technology in recent years have substantially increased the performance and functionality of integrated circuits, or ICs, used in signal processing applications. These developments include: the ability to combine analog and digital signal processing capability on a single chip, thereby making possible more highly-integrated solutions; and the widespread application of low-cost, high-performance microprocessor-based systems, which motivate customers to convert analog information into digital information that can be managed by these microprocessors. At the same time, the ongoing transition to digital media for communications, music, photography, and video has increased the need for precise, high-speed signal conditioning interfaces between the analog world and digital electronics. The convergence of computing, communications, and consumer electronics has resulted in end products that incorporate state-of-the-art signal processing capability onto fewer chips and with less power consumption. Our products are designed to be used within electronic equipment to achieve higher performance, including greater speed, improved accuracy, more efficient signal processing and minimized power consumption.

Principal Products

We design, manufacture and market a broad line of high-performance ICs that incorporate analog, mixed-signal and digital signal processing technologies. Our ICs are designed to address a wide range of real-world signal processing applications. Across the entire range of our product portfolio are both general-purpose products used by a broad range of customers and applications as well as application-specific products designed for specific clusters of customers in key target markets. By using readily available, high-performance, general-purpose products in their systems, our customers can reduce the time they need to bring new products to market. Given the high cost of developing more customized ICs, our standard products often provide the most cost-effective solution for many low to medium volume applications. However, in some communications, computer and consumer products, we focus on working with leading customers to design application-specific solutions. We begin with our existing core technologies in data conversion, amplification, power management, radio frequency and DSP, and devise a solution to more closely meet the needs of a specific customer or group of customers. Because we have already developed the core technology for our general-purpose products, we can create application-specific solutions quickly.

We produce and market several thousand products and operate in one reporting segment. Our ten highest revenue products, in the aggregate, accounted for approximately 10% of our revenue for fiscal 2008. The majority of our products are proprietary, meaning equivalent products are not available from competitors. A limited number of other companies may provide products with similar functions.

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Analog Products

Our analog IC technology has been the foundation of our business for over four decades, and we believe we are one of the world s largest suppliers of high-performance analog ICs. Our analog signal processing ICs are primarily high-performance devices, generally defined as devices that support a minimum of 10-bits of accuracy and a minimum of 50 megahertz of speed. The principal advantages these products have versus competitors products include higher accuracy, lower cost per function, smaller size, lower power consumption and fewer components resulting in improved reliability. The majority of our analog IC products are proprietary to us in their design and our product portfolio addresses a wide range of applications. Our product portfolio includes several thousand analog ICs, any one of which can have as many as several hundred customers. Our analog ICs typically have long product life cycles. Our analog IC customers include both original equipment manufacturers, or OEMs, and customers who build electronic subsystems for integration into larger systems.

We derive the majority of our analog signal processing IC product revenue from sales of data converters and amplifiers. We are the industry s leading supplier of data converter products. Data converters translate real-world analog signals into digital data and also translate digital data into analog signals. Amplifiers are used to condition analog signals and minimize noise. The data converter and amplifier product categories represented approximately 69% of our fiscal 2008 revenue, with converters representing 46% and amplifiers representing 23%.

Over the past several years we have been expanding our analog IC product offerings along the entire signal chain and into areas such as micro-electromechanical systems, or MEMS, radio frequency integrated circuits, or RF ICs, and power management.

Our analog technology base also includes products using an advanced IC technology known in the industry as surface micromachining, which is used to produce semiconductor products known as micro-electromechanical systems, or MEMS. This technology enables us to build extremely small mechanical sensing elements on the surface of a chip along with supporting circuitry. In addition to incorporating an electro-mechanical structure, these devices also have analog circuitry for conditioning signals obtained from the sensing element. The integration of signal conditioning and MEMS is a unique feature of our products which we call iMEMS®. Our iMEMS product portfolio includes accelerometers used to sense acceleration, and gyroscopes used to sense position. The majority of our current revenue from MEMS products is derived from accelerometers used by automotive manufacturers in airbag applications and in video game applications. However, opportunities from consumer and industrial customers are increasing as we develop products using this technology for applications in these end markets.

Our MEMS and RF products as well as other analog signal processing products such as high-speed clock ICs, are included in our Other Analog product category, which collectively represented 15% of our total revenue in fiscal 2008.

Power management and reference products contributed 6% of our total revenue in fiscal 2008. Whether the product is plugged into the wall or runs on batteries, every electronic device requires some form of power management, which can include converters, battery chargers, charge pumps, and regulators. We leverage our leading analog signal technology to devise innovative high-performance power management ICs, high-reliability infrastructure equipment and battery-operated portable medical, communications and consumer devices.

Digital Signal Processing Products

Digital Signal Processors (DSPs) are optimized for high-speed numeric calculations, which are essential for instantaneous, or real-time, processing of digital data generated, in most cases, from analog to digital signal conversion. DSP product revenue represented 10% of our fiscal 2008 revenue. Our DSP products are designed to be

fully programmable and to efficiently execute specialized software programs, or algorithms, associated with processing digitized real-time, real-world data. Programmable DSPs provide the flexibility to modify the device s function quickly and inexpensively using software. Our general-purpose DSP IC customers typically write their own algorithms using software development tools that we provide and software development tools they obtain from third-party suppliers. Our DSPs are designed in families of products that share a common architecture and therefore can execute the same software. We support these products with easy-to-use, low-cost development tools, which are designed to reduce our customers product development costs and time-to-market.

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Markets and Applications

The following describes some of the characteristics of, and customer products within, our major markets:

Industrial Our industrial market includes the following areas:

Industrial Process Automation Our industrial process automation market includes applications, such as factory automation systems, automatic process control systems, robotics, environmental control systems and automatic test equipment. These applications generally require ICs that offer performance greater than that available from commodity-level ICs but generally do not have production volumes that warrant custom or application-specific ICs. Combinations of analog, mixed-signal and DSP ICs are usually employed to achieve the necessary functionality.

Instrumentation Our instrumentation market includes engineering, medical and scientific instruments. These applications are usually designed using the highest performance analog and mixed-signal ICs available. Customer products include oscilloscopes, logic analyzers, CT scanners, MRI equipment, blood analyzers and microscopes.

Defense/Aerospace The defense, commercial avionics and space markets all require high-performance ICs that meet rigorous environmental and reliability specifications. Many of our analog ICs can be supplied in versions that meet these standards. In addition, many products can be supplied to meet the standards required for broadcast satellites and other commercial space applications. Most of our products sold in this market are specifically tested versions of products derived from our standard product offering. Customer products include navigation systems, flight simulators, radar systems and security devices.

Automotive Although the automotive market has historically been served with low-cost, low-performance ICs, demand has emerged for higher performance devices for a wide range of safety and entertainment applications, as well as for powertrain electronics. In response, we have developed products specifically for the automotive market. We supply a MEMS IC used as a crash sensor in airbag systems, roll-over sensing, global positioning satellite, or GPS, automotive navigation systems, anti-lock brakes and smart suspension systems. We offer a wide portfolio of analog ICs used in powertrain and body electronics applications to help improve fuel efficiency and lower emissions. In addition, our analog and DSP ICs have application in engine control, in-cabin electronics, audio and collision avoidance systems.

Communications The development of broadband, wireless and Internet infrastructures around the world has created an important market for our communications products. Communications technology involves the acquisition of analog signals that are converted from analog to digital and digital to analog form during the process of transmitting and receiving data. The need for higher speed and reduced power consumption, coupled with more reliable, bandwidth-efficient communications, has been creating demand for our products. Our products are used in the full spectrum of signal processing for audio, data, image and video communication. In wireless and broadband communication applications, our products are incorporated into cellular handsets, cellular basestation equipment, portable media devices, PBX switches, routers and remote access servers.

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

Computer We currently supply ICs used for high fidelity audio in desktop and notebook computers and for power management in server computers. Our products are also used in computer peripherals such as displays, printers and scanners.

Research and Development

Our markets are characterized by rapid technological changes and advances. Accordingly, we make substantial investments in the design and development of new products and manufacturing processes, and the improvement of

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existing products and manufacturing processes. We spent approximately $533 million during fiscal 2008 on the design, development and improvement of new and existing products and manufacturing processes, compared to approximately $510 million during fiscal 2007 and approximately $460 million during fiscal 2006.

Our research and development strategy focuses on building technical leadership in core technologies for signal sensing, conditioning, conversion and processing. In addition, we have been increasing our investment in analog products used for power management. In support of our research and development activities, we employ thousands of engineers involved in product and manufacturing process development at 40 design centers and manufacturing sites located throughout the world.

Patents and Other Intellectual Property Rights

We seek to establish and maintain our proprietary rights in our technology and products through the use of patents, copyrights, trademarks and trade secret laws. We have a program to file applications for and obtain patents, copyrights and trademarks in the United States and in selected foreign countries where we believe filing for such protection is appropriate. We also seek to maintain our trade secrets and confidential information by nondisclosure policies and through the use of appropriate confidentiality agreements. We have obtained a substantial number of patents and trademarks in the United States and in other countries. As of November 1, 2008, we held approximately 1,400 U.S. patents and approximately 550 non-provisional pending U.S. patent applications. There can be no assurance, however, that the rights obtained can be successfully enforced against infringing products in every jurisdiction. While our patents, copyrights, trademarks and trade secrets provide some advantage and protection, we believe our competitive position and future success is largely determined by such factors as the system and application knowledge, innovative skills, technological expertise and management ability and experience of our personnel; the range and success of new products being developed by us; our market brand recognition and ongoing marketing efforts; customer service and technical support. It is generally our policy to seek patent protection for significant inventions that may be patented, though we may elect, in certain cases, not to seek patent protection even for significant inventions, if we determine other protection, such as maintaining the invention as a trade secret, to be more advantageous. We also have trademarks that are used in the conduct of our business to distinguish genuine Analog Devices products and we maintain cooperative advertising programs to promote our brands and identify products containing genuine Analog Devices components. In addition, we have registered certain of our mask sets, which are akin to the blueprint for building an IC, under the Semiconductor Chip Protection Act of 1984.

Sales Channels

We sell our products in North America and internationally through a direct sales force, third-party distributors, independent sales representatives and via our worldwide website on the Internet.

We derived approximately 53% of our fiscal 2008 product revenue from sales made through distributors. These distributors typically maintain an inventory of our products. Some of them also sell products competitive with our products, including those for which we are an alternate source. In all regions of the world, we defer revenue and the related cost of sales on shipments to distributors until the distributors resell the products to their customers. We make sales to distributors under agreements that allow distributors to receive price adjustment credits and to return qualifying products for credit, as determined by us, in order to reduce the amounts of slow-moving, discontinued or obsolete product from their inventory. These agreements limit such returns to a certain percentage of our shipments to that distributor during the prior quarter. In addition, distributors are allowed to return unsold products if we terminate the relationship with the distributor. Additional information relating to our sales to distributors is set forth in Note 2n. in the Notes to Consolidated Financial Statements contained in Item 8 of this Annual Report on Form 10-K.

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

We derived approximately 20% of our fiscal 2008 revenue from customers in the United States and approximately 4% from customers elsewhere in North and South America. As of November 1, 2008, we had 12 direct sales offices in the United States.

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We derived approximately 26% of our fiscal 2008 revenue from customers in Europe. As of November 1, 2008, we had direct sales offices in Austria, Denmark, France, Germany, Israel, Italy, the Netherlands, Sweden and the United Kingdom.

We derived approximately 19% of our fiscal 2008 revenue from customers in Japan.

We derived approximately 16% of our fiscal 2008 revenue from customers in China and approximately 15% from customers elsewhere in Asia, principally Taiwan and Korea. As of November 1, 2008, we had direct sales offices in the Asia region in China, Hong Kong, India, Japan, Korea, Singapore, and Taiwan.

We also have sales representatives and/or distributors in over 40 countries outside North America, including countries where we also have direct sales offices. For further detail regarding revenue and financial information about our industry, segment and geographic areas, see our Consolidated Financial Statements and Note 4 in the related Notes contained in Item 8 of this Annual Report on Form 10-K.

We support our worldwide technical direct field sales efforts by an extensive promotional program that includes editorial coverage and paid advertising in trade publications, direct mail programs, promotional brochures, technical seminars and participation in trade shows. We publish and distribute product catalogs, applications guides, technical handbooks and detailed data sheets for individual products. We also provide this information and sell products via our worldwide website on the Internet. We maintain a staff of field application engineers who aid customers in incorporating our products into their products.

We have tens of thousands of customers worldwide. Our largest single customer, excluding distributors, represented approximately 4% of our fiscal 2008 revenue. Our 20 largest customers, excluding distributors, accounted for approximately 32% of our fiscal 2008 revenue. These customers used hundreds of different types of our products in a wide range of applications spanning the industrial, computer, communication and consumer markets.

Seasonality

Sales to customers during our first fiscal quarter may be lower than other quarters due to plant shutdowns at some of our customers during the holiday season. In general, the seasonality for any specific period of time has not had a material impact on our results of operations. In addition, as explained in our risk factors included elsewhere in this report, our revenue is more likely to be influenced on a quarter to quarter basis by cyclicality in the semiconductor industry.

Foreign Operations

Through subsidiaries and affiliates, we conduct business in numerous countries outside the United States. During fiscal 2008, we derived approximately 80% of our revenue from customers in international markets. Our international business is subject to risks customarily encountered in foreign operations, including fluctuations in foreign currency exchange rates and controls, import and export controls, and other laws, policies and regulations of foreign governments. Although we engage in hedging transactions to reduce our exposure to currency exchange rate fluctuations, our competitive position may be adversely affected by changes in the exchange rate of the United States dollar against other currencies.

Production and Raw Materials

Monolithic integrated circuit components are manufactured in a sequence of semiconductor production steps that include wafer fabrication, wafer testing, cutting the wafer into individual chips, or dice, assembly of the dice into

packages and electrical testing of the devices in final packaged form. The raw materials used to manufacture these devices include silicon wafers, processing chemicals (including liquefied gases), precious metals and ceramic and plastic used for packaging.

We develop and employ a wide variety of proprietary manufacturing processes that are specifically tailored for use in fabricating high-performance analog, DSP, mixed-signal and MEMS ICs. We also use bipolar and complementary metal-oxide semiconductor, or CMOS, wafer fabrication processes.

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Our IC products are fabricated both at our production facilities and by third-party wafer fabricators. Most of our analog products are manufactured in our own wafer fabrication facilities using proprietary processes. Our DSP products, and a portion of our analog products, are manufactured at third-party wafer-fabrication foundries using sub-micron digital CMOS processes. Approximately 44%, 43% and 41% of our revenue in fiscal 2008, 2007 and 2006, respectively, was from products fabricated at third-party wafer-fabrication facilities, primarily Taiwan Semiconductor Manufacturing Company (TSMC). We operate wafer fabrication facilities in Wilmington and Cambridge, Massachusetts and Limerick, Ireland. We also operate test facilities located in the Philippines and use third-party subcontractors for the assembly and testing of our products.

Capital spending was $157.4 million in fiscal 2008, compared with $141.8 million in fiscal 2007. We currently plan to make capital expenditures of approximately $55 million in fiscal 2009.

Our products require a wide variety of components, raw materials and external foundry services, most of which we purchase from third-party suppliers. We have multiple sources for many of the components and materials that we purchase and incorporate into our products. However, a large portion of our external wafer purchases and foundry services are from a limited number of suppliers, primarily TSMC. If TSMC or any of our other key suppliers are unable or unwilling to manufacture and deliver sufficient quantities of components to us, on the time schedule and of the quality that we require, we may be forced to seek to engage additional or replacement suppliers, which could result in significant expenses and disruptions or delays in manufacturing, product development and shipment of product to our customers. Although we have experienced shortages of components, materials and external foundry services from time to time, these items have generally been available to us as needed.

Backlog

Backlog at the end of fiscal 2008 was approximately $333 million, down from approximately $396 million at the end of fiscal 2007. We define backlog as of a particular date to mean firm orders with a customer or distributor with a requested delivery date within thirteen weeks. Backlog is impacted by the tendency of customers to rely on shorter lead times available from suppliers, including us, in periods of depressed demand. In periods of increased demand, there is a tendency towards longer lead times that has the effect of increasing backlog and, in some instances, we may not have manufacturing capacity sufficient to fulfill all orders. As is customary in the semiconductor industry, we allow most orders to be cancelled or deliveries to be delayed by customers without significant penalty. Accordingly, we believe that our backlog at any time should not be used as an indication of our future revenue.

We typically do not have long-term sales contracts with our customers. In some of our markets where end-user demand may be particularly volatile and difficult to predict, some customers place orders that require us to manufacture product and have it available for shipment, even though the customer is unwilling to make a binding commitment to purchase all, or even any, of the product. In other instances, we manufacture product based on forecasts of customer demands. As a result, we may incur inventory and manufacturing costs in advance of anticipated sales and are subject to the risk of cancellation of orders leading to a sharp reduction of sales and backlog. Further, those orders or forecasts may be for products that meet the customer s unique requirements so that those cancelled orders would, in addition, result in an inventory of unsaleable products, resulting in potential inventory write-offs. As a result of lengthy manufacturing cycles for some of our products that are subject to these uncertainties, the amount of unsaleable product could be substantial.

Government Contracts

We estimate that approximately 3% of our fiscal 2008 product revenue was attributable to sales to the U.S. government and U.S. government contractors and subcontractors. Our government contract business is predominantly in the form of negotiated, firm fixed-price subcontracts. All such contracts and subcontracts contain

standard provisions relating to termination at the election of the U.S. government.

Acquisitions, Divestitures and Investments

An element of our business strategy involves expansion through the acquisition of businesses, assets, products or technologies that allow us to complement our existing product offerings, expand our market coverage, increase our engineering workforce or enhance our technological capabilities. From time to time, we consider acquisitions and divestitures that may strengthen our business.

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Additional information relating to our acquisition and divestiture activities during fiscal 2008, fiscal 2007 and fiscal 2006 is set forth in Note 2u., Note 6 and Note 16 of the Notes to Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

Competition

We compete with a number of semiconductor companies in markets that are highly competitive. Our competitors include Broadcom Corporation, Cirrus Logic, Inc., Freescale Semiconductor, Inc., Infineon Technologies, Intersil Corporation, Linear Technology Corporation, Maxim Integrated Products, Inc., Microchip Technology Inc., National Semiconductor Corporation, NXP Semiconductors, ST Microelectronics, Silicon Laboratories, Inc. and Texas Instruments, Inc.

We believe that competitive performance in the marketplace for real-world signal processing components depends upon several factors, including design and quality of products, product performance, features and functionality, and product pricing, availability and capacity, with the relative importance of these factors varying among products, markets and customers. We believe our technical innovation emphasizing product performance and reliability, supported by our commitment to strong customer service and technical support, enables us to compete in our chosen markets against both foreign and domestic semiconductor manufacturers.

Many other companies offer products that compete with our products, and some have greater financial, manufacturing, technical and marketing resources than we have. Some of our competitors may have better established supply or development relationships with our current and potential customers. Additionally, some formerly independent competitors have been purchased by larger companies. Our competitors also include emerging companies selling specialized products into markets we serve. There can be no assurance that we will be able to compete successfully in the future against existing or new competitors, or that our operating results will not be adversely affected by increased price competition.

Environment

We are committed to protecting the environment and the health and safety of our employees, customers and the public. We endeavor to adhere to the most stringent standards across all of our facilities, to encourage pollution prevention, to reduce our energy consumption and to strive towards continual improvement. We strive to achieve a standard of excellence in environmental, health and safety management practices as an integral part of our total quality management system.

In fiscal 2008, we became an applicant member of the Electronic Industry Citizenship Coalition (EICC).

Our manufacturing facilities are subject to numerous and increasingly strict environmental laws and regulations, particularly with respect to the transportation, storage, handling, use, emission, discharge and disposal of certain chemicals, gases and other substances used or produced in the semiconductor manufacturing process. Contracts with many of our customers reflect these and additional environmental compliance obligations. Compliance with these laws and regulations has not had a material impact on our capital expenditures, earnings, financial condition or competitive position. There can be no assurance, however, that current or future environmental laws and regulations will not impose costly requirements upon us. Any failure by us to comply with applicable environmental laws, regulations and contractual obligations could result in fines, suspension of production, alteration of fabrication processes and legal liability.

Employees

As of November 1, 2008, we employed approximately 9,000 individuals worldwide. Our future success depends in large part on the continued service of our key technical and senior management personnel, and on our ability to continue to attract, retain and motivate qualified employees, particularly those highly-skilled design, process, test and applications engineers involved in the design, support and manufacture of new and existing products and processes. We believe that relations with our employees are good; however, the competition for such personnel is intense, and the loss of key personnel could have a material adverse impact on our results of operations and financial condition.

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ITEM 1A. RISK FACTORS

Set forth below and elsewhere in this report and in other documents we file with the SEC are descriptions of the risks and uncertainties that could cause our actual results to differ materially from the results contemplated by the forward-looking statements contained in this report.

Our future revenue, gross margins, operating results and net income are difficult to predict and may materially fluctuate.

Our future revenue, gross margins, operating results and net income are difficult to predict and may be materially affected by a number of factors, including:

- the effects of adverse economic conditions in the United States and international markets, including the current crisis in global credit and financial markets;
- changes in customer demand for our products and for end products that incorporate our products;
- the effectiveness of our efforts to refocus our operations and reduce our cost structure;
- the timing of new product announcements or introductions by us, our customers or our competitors;
- competitive pricing pressures;
- fluctuations in manufacturing yields, adequate availability of wafers and other raw materials, and manufacturing, assembly and test capacity;
- any significant decline in our backlog;
- the timing, delay or cancellation of significant customer orders and our ability to manage inventory;
- our ability to hire, retain and motivate adequate numbers of engineers and other qualified employees to meet the demands of our customers;
- changes in geographic, product or customer mix;
- our ability to utilize our manufacturing facilities at efficient levels;
- potential significant litigation-related costs;
- the difficulties inherent in forecasting future operating expense levels, including with respect to costs associated with labor, utilities, transportation and raw materials;
- the costs related to compliance with increasing worldwide environmental regulations;
- changes in our effective tax rates in the United States, Ireland or worldwide; and
- the effects of public health emergencies, natural disasters, security risks, terrorist activities, international conflicts and other events beyond our control.

In addition, the semiconductor market has historically been cyclical and subject to significant economic upturns and downturns. Our business is subject to rapid technological changes and there can be no assurance, depending on the mix of future business, that products stocked in our inventory will not be rendered obsolete before we ship them. As a result of these and other factors, there can be no assurance that we will not experience material fluctuations in future revenue, gross margins, operating results and net income on a quarterly or annual basis. In addition, if our revenue, gross margins, operating results and net income do not meet the expectations of securities analysts or investors, the market price of our common stock may decline.

Long-term contracts are not typical for us and reductions, cancellations or delays in orders for our products could adversely affect our operating results.

We typically do not have long-term sales contracts with our customers. In certain markets where end-user demand may be particularly volatile and difficult to predict, some customers place orders that require us to manufacture product and have it available for shipment, even though the customer is unwilling to make a binding

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commitment to purchase all, or even any, of the product. In other instances, we manufacture product based on forecasts of customer demands. As a result, we may incur inventory and manufacturing costs in advance of anticipated sales and are subject to the risk of cancellations of orders, leading to a sharp reduction of sales and backlog. Further, orders or forecasts may be for products that meet the customer s unique requirements so that those cancelled or unrealized orders would, in addition, result in an inventory of unsaleable products, resulting in potential inventory write-offs. As a result of lengthy manufacturing cycles for certain of the products that are subject to these uncertainties, the amount of unsaleable product could be substantial. Incorrect forecasts, or reductions, cancellations or delays in orders for our products could adversely affect our operating results.

The current crisis in global credit and financial markets could materially and adversely affect our business and results of operations.

As widely reported, global credit and financial markets have been experiencing extreme disruptions in recent months, including severely diminished liquidity and credit availability, declines in consumer confidence, declines in economic growth, increases in unemployment rates, and uncertainty about economic stability. There can be no assurance that there will not be further deterioration in credit and financial markets and confidence in economic conditions. These economic uncertainties affect businesses such as ours in a number of ways, making it difficult to accurately forecast and plan our future business activities. The current tightening of credit in financial markets may lead consumers and businesses to postpone spending, which may cause our customers to cancel, decrease or delay their existing and future orders with us. In addition, financial difficulties experienced by our suppliers or distributors could result in product delays, increased accounts receivable defaults and inventory challenges. The volatility in the credit markets has severely diminished liquidity and capital availability. We are unable to predict the likely duration and severity of the current disruptions in the credit and financial markets and adverse global economic conditions, and if the current uncertain economic conditions continue or further deteriorate, our business and results of operations could be materially and adversely affected.

Our future success depends upon our ability to continue to innovate, improve our products, develop and market new products, and identify and enter new markets.

Our success significantly depends on our continued ability to improve our products and develop and market innovative new products. Product development, innovation and enhancement is often a complex, time-consuming and costly process involving significant investment in research and development, with no assurance of return on investment. There can be no assurance that we will be able to develop and introduce new and improved products in a timely or efficient manner or that new and improved products, if developed, will achieve market acceptance. Our products generally must conform to various evolving and sometimes competing industry standards, which may adversely affect our ability to compete in certain markets or require us to incur significant costs. In addition, our customers generally impose very high quality and reliability standards on our products, which often change and may be difficult or costly to satisfy. Any inability to satisfy such customer quality standards or comply with industry standards and technical requirements may adversely affect demand for our products and our results of operations. In addition, our growth is dependent on our continued ability to identify and penetrate new markets where we have limited experience and competition is intense. Also, some of our customers in these markets are less established, which could subject us to increased credit risk. There can be no assurance that the markets we serve will grow in the future, that our existing and new products will meet the requirements of these markets, that our products will achieve customer acceptance in these markets, that competitors will not force price reductions or take market share from us, or that we can achieve or maintain adequate gross margins or profits in these markets. Furthermore, a decline in demand in one or several of our end-user markets could have a material adverse effect on the demand for our products and our results of operations.

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

We face intense technological and pricing competition in the semiconductor industry, and we expect such competition to increase in the future. Many other companies offer products that compete with our products. Some have greater financial, manufacturing, technical and marketing resources than we have. Some of our competitors may have better established supply or development relationships with our current and potential customers or

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suppliers. Our competitors also include emerging companies selling specialized products in markets we serve. Competition is generally based on design and quality of products, product performance, features and functionality, and product pricing, availability and capacity, with the relative importance of these factors varying among products, markets and customers. Existing or new competitors may develop products or technologies that more effectively address the demands of our customers and markets with enhanced performance, features and functionality, lower power requirements, greater levels of integration or lower cost. Increased competition in certain markets has resulted in and may continue to result in declining average selling prices, reduced gross margins and loss of market share in such markets. There can be no assurance that we will be able to compete successfully in the future against existing or new competitors, or that our operating results will not be adversely affected by increased competition.

We rely on third-party subcontractors and manufacturers for some industry-standard wafers and assembly and test services, and generally cannot control their availability or conditions of supply.

We rely, and plan to continue to rely, on assembly and test subcontractors and on third-party wafer fabricators to supply most of our wafers that can be manufactured using industry-standard submicron processes. This reliance involves several risks, including reduced control over availability, capacity utilization, delivery schedules, manufacturing yields, quality assurance and costs. Additionally, we utilize a limited number of third-party wafer fabricators, primarily Taiwan Semiconductor Manufacturing Company. These suppliers manufacture components in accordance with our proprietary designs and specifications. In addition, these suppliers often provide manufacturing services to our competitors and therefore periods of increased industry demand may result in capacity constraints. If these suppliers are unable or unwilling to manufacture and deliver sufficient quantities of components to us on the time schedule and of the quality that we require, we may be forced to seek to engage additional or replacement suppliers, which could result in additional expenses and delays in product development or shipment of product to our customers. Approximately 44% of our fiscal 2008 revenue was from products fabricated at third-party wafer-fabrication facilities, primarily TSMC.

The markets for semiconductor products are cyclical, and we may not be able to satisfy sufficiently the demand for our products, while increased production may lead to overcapacity and lower prices.

The cyclical nature of the semiconductor industry has resulted in periods when demand for our products has increased or decreased rapidly. During periods of rapid increases in demand, our available capacity may not be sufficient to satisfy the demand. In addition, we may not be able to expand our workforce and operations in a sufficiently timely manner, procure adequate resources, or locate suitable third-party suppliers, to respond effectively to changes in demand for our existing products or to the demand for new products requested by our customers, and our current or future business could be materially and adversely affected. Conversely, if we expand our operations and workforce too rapidly or procure excessive resources in anticipation of increased demand for our products, and such demand does not materialize at the pace at which we expect, or declines, our operating results may be adversely affected as a result of increased operating expenses, reduced margins, underutilization of capacity or asset impairment charges. These capacity expansions by us and other semiconductor manufacturers could also lead to overcapacity in our target markets which could lead to price erosion that would adversely impact our operating results.

Our semiconductor products are complex and we may be subject to product warranty and indemnity claims, which could result in significant costs and damage to our reputation and adversely affect the market acceptance of our products.

Semiconductor products are highly complex and may contain defects when they are first introduced or as new versions are developed. We generally warrant our products to our customers for one year from the date title passes from us. We invest significant resources in the testing of our products; however, if any of our products contain defects, we may be required to incur additional development and remediation costs, pursuant to warranty and

indemnification provisions in our customer contracts and purchase orders. These problems may divert our technical and other resources from other product development efforts and could result in claims against us by our customers or others, including liability for costs associated with product recalls, which may adversely impact our operating results. We may also be subject to customer indemnity claims. Our customers have on occasion been sued, and may

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in the future be sued by third parties with respect to infringement or other product matters, and those customers may seek indemnification from us under the terms and conditions of our sales contracts with them. In certain cases, our potential indemnification liability may be significant. There can be no assurance that we are adequately insured to protect against all claims and potential liabilities. If any of our products contains defects, or has reliability, quality or compatibility problems, our reputation may be damaged, which could make it more difficult for us to sell our products to existing and prospective customers and could adversely affect our operating results.

We have manufacturing processes that utilize a substantial amount of technology as the fabrication of integrated circuits is a highly complex and precise process. Minute impurities, contaminants in the manufacturing environment, difficulties in the fabrication process, defects in the masks used in the wafer manufacturing process, manufacturing equipment failures, wafer breakage or other factors can cause a substantial percentage of wafers to be rejected or numerous dice on each wafer to be nonfunctional. While we have significant expertise in semiconductor manufacturing, it is possible that some processes could become unstable. This instability could result in manufacturing delays and product shortages, which could have a material adverse effect on our operating results.

We may be unable to adequately protect our proprietary rights, which may limit our ability to compete effectively.

Our success depends, in part, on our ability to protect our intellectual property. We primarily rely on patent, mask work, copyright, trademark and trade secret laws, as well as nondisclosure agreements and other methods, to protect our proprietary technologies and processes. Despite our efforts to protect our proprietary technologies and processes, it is possible that competitors or other unauthorized third parties may obtain, copy, use or disclose our technologies and processes. Moreover, the laws of foreign countries in which we design, manufacture, market and sell our products may afford little or no effective protection of our proprietary technology.

There can be no assurance that the claims allowed in our issued patents will be sufficiently broad to protect our technology. In addition, any of our existing or future patents may be challenged, invalidated or circumvented. As such, any rights granted under these patents may not provide us with meaningful protection. We may not have foreign patents or pending applications corresponding to our U.S. patents and applications. Even if foreign patents are granted, effective enforcement in foreign countries may not be available. If our patents do not adequately protect our technology, our competitors may be able to offer products similar to ours. Our competitors may also be able to develop similar technology independently or design around our patents. Other companies or individuals have obtained patents covering a variety of semiconductor designs and processes, and we might be required to obtain licenses under some of these patents or be precluded from making and selling the infringing products, if such patents are found to be valid. There can be no assurance that we would be able to obtain licenses, if required, upon commercially reasonable terms, or at all.

We generally enter into confidentiality agreements with our employees, consultants and strategic partners. We also try to control access to and distribution of our technologies, documentation and other proprietary information. Despite these efforts, internal or external parties may attempt to copy, disclose, obtain or use our products or technology without our authorization. Also, former employees may seek employment with our business partners, customers or competitors, and there can be no assurance that the confidential nature of our proprietary information will be maintained in the course of such future employment.

We are involved in frequent litigation, including regarding intellectual property rights, which could be costly to bring or defend and could require us to redesign products or pay significant royalties.

The semiconductor industry is characterized by frequent claims and litigation involving patent and other intellectual property rights, including claims arising under our contractual obligations to indemnify our customers. From time to time, we receive claims from third parties asserting that our products or processes infringe their patents or other

intellectual property rights. In the event a third party makes a valid intellectual property claim against us and a license is not available to us on commercially reasonable terms, or at all, we could be forced either to redesign or to stop production of products incorporating that intellectual property, and our operating results could be materially and adversely affected. Litigation may be necessary to enforce our patents or other of our intellectual

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property rights or to defend us against claims of infringement, and this litigation could be costly and divert the attention of our key personnel. We could be subject to warranty or product liability claims that could lead to significant costs and expenses as we defend such claims or pay damage awards. There can be no assurance that we are adequately insured to protect against all claims and potential liabilities. We may incur costs and expenses relating to a recall of our customers products due to an alleged failure of components we supply. See Note 12 in the Notes to Consolidated Financial Statements contained in Item 8 of this Annual Report on Form 10-K for information concerning certain litigation that involves us. An adverse outcome in litigation could have a material adverse effect on our financial position or on our operating results or cash flows in the period in which the litigation is resolved.

If we do not retain our key personnel, our ability to execute our business strategy will be adversely affected.

Our continued success depends to a significant extent upon the recruitment, retention and effective succession of our executive officers and key management and technical personnel, particularly our experienced engineers. The competition for these employees is intense. The loss of the services of one or more of our key personnel could have a material adverse effect on our operating results. In addition, there could be a material adverse effect on our business should the turnover rates for engineers and other key personnel increase significantly or if we are unable to continue to attract qualified personnel. We do not maintain any key person life insurance policy on any of our officers or employees.

To remain competitive, we may need to acquire other companies, purchase or license technology from third parties, or enter into other strategic transactions in order to introduce new products or enhance our existing products.

An element of our business strategy involves expansion through the acquisitions of businesses, assets, products or technologies that allow us to complement our existing product offerings, expand our market coverage, increase our engineering workforce or enhance our technological capabilities. We may not be able to find businesses that have the technology or resources we need and, if we find such businesses, we may not be able to purchase or license the technology or resources on commercially favorable terms or at all. Acquisitions and technology licenses are difficult to identify and complete for a number of reasons, including the cost of potential transactions, competition among prospective buyers and licensees, the need for regulatory approvals, and difficulties related to integration efforts. In order to finance a potential transaction, we may need to raise additional funds by issuing securities or borrowing money. We may not be able to find financing on favorable terms, and the sale of our stock may result in the dilution of our existing shareholders or the issuance of securities with rights that are superior to the rights of our common shareholders. Our current credit facility imposes restrictions on our ability to undertake certain transactions, to create certain liens on our assets and to incur certain subsidiary indebtedness, and requires us to maintain compliance with specified financial ratios. If we breach any of the covenants under our credit facility and do not obtain a waiver from the lenders, then, subject to applicable cure periods, our outstanding indebtedness thereunder could be declared immediately due and payable.

Acquisitions also involve a number of risks, including:

- difficulty integrating acquired technologies, operations and personnel with our existing businesses;
- diversion of management attention in connection with both negotiating the acquisitions and integrating the assets;
- strain on managerial and operational resources as management tries to oversee larger operations;
- the future funding requirements for acquired companies, which may be significant;

potential loss of key employees;

exposure to unforeseen liabilities of acquired companies; and

increased risk of costly and time-consuming litigation.

her operating provisions, mostly referring to provisions for contingencies related to economic plans, mitigated by the change in the accounting criteria for amortization of expenses deriving from the acquisition of rights for rendering banking services.

Non-Operating Income

In 2Q09, Non-Operating Income totaled R$2,034 million, mainly due to the gain with the partial sale of VisaNet Brasil, in the amount of R$2 billion.

If we compare 1H09 Non-Operating Income (excluding the VisaNet Brasil effect), in the amount of R$107 million, with the amount obtained in 1H08, of R$122 million, such variation was impacted by the income on the sale of BM&FBovespa shares in the amount of R$69 million in 1H08 and of Visa Inc. in the amount of R$48 million in 1H09.

Income Tax and Social Contribution

The R$269 million increase in 2Q09 in relation to the previous quarter reflects tax charges over earnings before taxes, adjusted by additions and exclusions.

We observe that the average rate (calculated considering the earnings before income tax and social contribution less equity in the earnings (losses) of unconsolidated companies and interest on shareholders capital) is close to the effective tax rate of 34%.

When comparing 1H09 and 1H08, taxes and contributions went up by 3.7% .

Tax credits originated in previous periods, deriving from the increase in the CSLL tax rate to 15%, are recorded in the consolidated financial statements up to the limit of corresponding consolidated tax liabilities. The balance not activated is of R$904 million. Further details may be obtained in the Footnote #34 of the Financial Statements.

Unrealized Gains

Unrealized gains reached R$8.7 billion in 2Q09, a R$7.4 billion jump in relation to the previous quarter. The variation is mainly due to (i) the remaining marked-to-market investment, in the amount of R$6.4 billion, generated by Visanet s IPO; and (ii) a R$1 billion appreciation in the mark-to-market of securities, basically equities that were beneficiated by the partial turnaround of the Brazilian stock market.

Economic Scenario

The second quarter of 2009 signals that the worst of the global crisis has been overcome. Nevertheless, the international scene still requires caution, as the uncertainty in relation to the upturn pace over the following quarters remains high. We believe in a consistent, but gradual, recovery of the world s economy, which is compatible with a yet volatile direction of assets prices. Under this international scenario, we do not observe relevant inflationary pressures, but the move of commodities prices must be carefully watched, mainly in view of the recovery of countries such as China, which have materially contributed to the demand expansion in the past years. It is also worth mentioning over this last quarter mounting concerns over the long-term tax solvency of several developed economies; these concerns may cause non-negligible impacts on the foreign exchange market in the medium term, as U.S. dollar depreciation hints.

The Brazilian economy, in particular, has been holding out the crisis relatively much better than other countries, with visible signs that it had recovered and overcome the recession in the mid quarter. Concerning the industry, the second quarter set the end of inventories adjustment, which must benefit the upturn over the forthcoming months, as well as the continuity of business confidence. Concerning consumption, we observed a downward move in expansion but without abrupt declines as previously anticipated. Factors, such as tax benefits, credit recovery, interest rates cut and real income growth have been stimulating the consumer s confidence upturn. After an accumulated GDP reduction of 4.3% in the fourth quarter of 2008 and in the first quarter of 2009, we will have consecutive increases in the three following periods, while comparing to the immediately previous quarter. A 0.5% drop projected for 2009, even if negative, will be one of the best results in relation to global standards in 2009.

Bradesco reiterates its positive and favorable view in relation to the Brazilian economy. Brazil was not immune to the global crisis, the biggest ones of last decades, but appears in the international scenario as one of the first countries to recover, and as a benchmark of macroeconomic and institutional fundamentals improvement in the past years. Such world s vision towards Brazil has been represented by continued foreign direct investment inflow, even in sectors deeply affected in the origin countries of such investments, which has been contributing to the exchange rate appreciation. In fact, this is the first time in Brazil s recent history that amid a foreign crisis we observed currency appreciation and interest rate cuts, without generalized inflationary pressures. Referring to the monetary policy, the second quarter was marked by the one-digit nominal interest rate, certainly an unprecedented event that will contribute to the economic upturn over the next months.

Main Economic Indicators

Main Indicators (%)	2Q09	1Q09	4Q08	3Q08	2Q08	1Q08	4Q07	3Q07
Interbank Deposit Certificate (CDI)	2.38	2.95	3.32	3.16	2.74	2.58	2.62	2.79
Ibovespa Index	25.75	8.99	(24.20)	(23.80)	6.64	(4.57)	5.66	11.16
USD Commercial Rate	(15.70)	(0.93)	22.08	20.25	(8.99)	(1.25)	(3.68)	(4.52)
IGP - M	(0.32)	(0.92)	1.23	1.54	4.34	2.38	3.54	2.57
CPI (IPCA IBGE)	1.32	1.23	1.09	1.07	2.09	1.52	1.43	0.89
Federal Government Long-Term Interest Rate (TJLP)	1.54	1.54	1.54	1.54	1.54	1.54	1.53	1.53
Reference Interest Rate (TR)	0.22	0.37	0.63	0.55	0.28	0.17	0.24	0.34
Savings Accounts	1.67	1.89	2.15	2.06	1.80	1.68	1.75	1.85
Number of Business Days	61	61	65	66	62	61	62	64

Indicators (Closing Rates)	Jun09	Mar09	Dec08	Sep08	Jun08	Mar08	Dec07	Sep07
USD Commercial Selling Rate R$	1.9516	2.3152	2.3370	1.9143	1.5919	1.7491	1.7713	1.8389
Euro R$	2.7399	3.0783	3.2382	2.6931	2.5063	2.7606	2.6086	2.6237
Country Risk (points)	284	425	428	331	228	284	221	173
Selic Basic Interest Rate (% p. a.)	9.25	11.25	13.75	13.75	12.25	11.25	11.25	11.25
Pre -BM&F Rate (% p. a.)	9.23	9.79	12.17	14.43	14.45	12.69	12.05	11.16

Projections until 2011

%	2009	2010	2011
USD - Commercial Rate (year-end) - R$	1.80	1.75	1.80
CPI (IPCA - IBGE)	4.50	4.50	4.50
IGP - M	0.30	4.50	4.40
Selic (year-end)	8.75	9.50	9.00
Gross Domestic Product (GDP)	(0.50)	4.90	4.00

Guidance

Bradesco s Outlook for 2009

This guidance has forward-looking statements, which are subject to risks and uncertainties, so they were based on management expectations and uncertainties and information available in the market up to the present date.

	2009	
	Current	**Previous**
Loan Portfolio	**8 to 12%**	**13 to 17%**
Individuals	9 to 12%	11 to 15%
Corporate Clients	7 to 11%	14 to 18%
SMEs	9 to 13%	15 to 19%
Large Corporations	6 to 10%	13 to 17%
Products		
Vehicles	**2 to 5%**	**9 to 16%**
Cards	**10 to 14%**	**15 to 20%**
Real Estate Financing (origination)	**R$4.5 bi**	**R$5.0 bi**
Payroll Deductible Loans	**20 to 30%**	**18 to 27%**
Net Interest Income (1)	**18 to 22%**	**18 to 22%**
Fees and Commissions	**6 to 10%**	**7 to 11%**
Operating Expenses (2)	**6 to 11%**	**9 to 14%**
Insurance Premiuns	**5 to 7%**	**7 to 9%**

(1) At current criteria, Guidance for Net Interest Income; and
(2) Administrative and Personnel Expenses

Statement of Income

Analytical Breakdown of Statement of Adjusted Income

R$ million

	2Q09									
		Reclassifications								
	Reported Statement	**(1)**	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**	**Fiscal Hedge [8]**	**Adjusted Statement**
Net Interest Income	**8,996**	**(105)**	**10**	**(105)**	**(241)**	**-**	**-**	**-**	**(995)**	**7,560**
- Interest	6,866	-	10	(105)	-	-	-	-	-	6,771
- Non-Interest	2,130	(105)	-	-	(241)	-	-	-	(995)	789
PLL	(4,404)	-	-	-	(17)	-	-	-	-	(4,421)
Gross Income from Financial Intermediation	**4,592**	**(105)**	**10**	**(105)**	**(258)**	**-**	**-**	**-**	**(995)**	**3,139**
Income from Insurance, Private Pension Plan, Savings Bonds Operations	529	-	-	-	-	-	-	-	-	529
Fees and Commissions	2,948	-	-	-	-	(62)	25	-	-	2,911
Personnel Expenses	(1,908)	-	-	-	-	-	-	-	-	(1,908)
Other Administrative Expenses	(2,168)	-	-	-	-	62	-	(127)	-	(2,233)
Tax Expenses	(723)	-	-	-	-	-	-	-	108	(615)
Equity in the Earnings (Losses) of Unconsolidated Companies	13	-	-	-	-	-	-	-	-	13
Other Operating Income/Expenses	(1,165)	105	(10)	105	166	-	(25)	127	-	(697)
Operating Income	**2,118**	**-**	**-**	**-**	**(92)**	**-**	**-**	**-**	**(887)**	**1,139**
Non-Operating Income	1,942	-	-	-	92	-	-	-	-	2,034
	(1,763)	-	-	-		-	-	-		(876)

IR/CS and Minority Interest									887	
Net Income	**2,297**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**2,297**

(1) Commission expenses related to loans and financing were reclassified from the item Other Operating Expenses to the item Net Interest Income Non-Interest Credits ;
(2) Interest Income/Expenses, deriving from the insurance segment, were reclassified from the item Other Operating Revenues/Expenses to the item Net Interest Income Interest Insurance ;
(3) Interest Income/Expenses, deriving from the financial segment, were reclassified from the item Other Operating Revenues/Expenses to the item Net Interest Income Interest Credit ;
(4) Revenues from loan recovery, classified into the item Net Interest Income Non-Interest - Credit ; expenses related to discounts granted, classified into the item Other Operating Revenues/Expenses ; expenses related to the write-off of leasing operations, classified into the item Net Interest Income Interest Credit , and losses related to the sale of non-real estate assets BNDU, classified into the item Non-Operating Income , were reclassified into the item Provision for Loan Losses Expenses - PLL ;
(5) Third-party services expenses, classified into the item Other Administrative Expenses were reclassified into the item Fees and Commissions ;
(6) Commissions fees and credit card fees, insurance premium commissions, insurance policy fees, classified into the item Other Operating Revenues/Expenses were reclassified into the item Fees and Commissions ;
(7) Credit card operations interchange expenses, classified into the item Other Operating Revenues/Expenses were reclassified into the item Other Administrative Expenses ; and
(8) The partial result of derivatives used as hedge of investments abroad, which in terms of net income, simply annuls the IR/CS and PIS/COFINS tax effect of this hedge strategy .

R$ million

	1Q09									
	Reported Statement of Income	Reclassifications (1)	(2)	(3)	(4)	(5)	(6)	(7)	Fiscal Hedge (8)	Adjusted Statement of Income
Net Interest Income	**7,752**	**(124)**	**25**	**(195)**	**(252)**	**-**	**-**	**-**	**(91)**	**7,115**
- Interest	6,592	-	25	(195)	-	-	-	-	-	6,422
- Non-Interest	1,160	(124)	-	-	(252)	-	-	-	(91)	693
PLL	(2,920)	-	-	-	(19)	-	-	-	-	(2,939)
Gross Income from Financial Intermediation	**4,832**	**(124)**	**25**	**(195)**	**(271)**	**-**	**-**	**-**	**(91)**	**4,176**
Income from Insurance, Private Pension Plan, Savings Bonds Operations	537	-	-	-	-	-	-	-	-	537
Fees and Commissions	2,750	-	-	-	-	(61)	34	-	-	2,723
Personnel Expenses	(1,852)	-	-	-	-	-	-	-	-	(1,852)
Other Administrative Expenses	(2,158)	-	-	-	-	61	-	(58)	-	(2,155)
Tax Expenses	(597)	-	-	-	-	-	-	-	10	(587)
Equity in the Earnings (Losses) of Unconsolidated Companies	6	-	-	-	-	-	-	-	-	6
Other Operating Income/Expenses	(1,066)	124	(25)	195	160	-	(34)	58	-	(588)
Operating Income	**2,452**	**-**	**-**	**-**	**(111)**	**-**	**-**	**-**	**(81)**	**2,260**
Non-Operating Income	(39)	-	-	-	111	-	-	-	-	72
IR/CS and Minority Interest	(690)	-	-	-		-	-	-	81	(609)
Net Income	**1,723**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,723**

(1) Commission expenses related to loans and financing were reclassified from the item Other Operating Expenses to the item Net Interest Income Non-Interest Credits ;
(2) Interest Income/Expenses, deriving from the insurance segment, were reclassified from the item Other Operating Revenues/Expenses to the item Net Interest Income Interest Insurance ;
(3) Interest Income/Expenses, deriving from the financial segment, were reclassified from the item Other Operating Revenues/Expenses to the item Net Interest Income Interest Credit ;
(4) Revenues from loan recovery, classified into the item Net Interest Income Non-Interest - Credit ; expenses related to discounts granted, classified into the item Other Operating Revenues/Expenses ; expenses related to the write-off of leasing operations, classified into the item Net Interest Income Interest Credit , and losses related to the sale of non-real estate assets BNDU, classified into the item Non-Operating Income , were reclassified into the item Provision for Loan Losses Expenses - PLL ;
(5) Third-party services expenses, classified into the item Other Administrative Expenses were reclassified into the item Fees and Commissions ;
(6) Commissions fees and credit card fees, insurance premium commissions, insurance policy fees, classified into the item Other Operating Revenues/Expenses were reclassified into the item Fees and Commissions ;
(7) Credit card operations interchange expenses, classified into the item Other Operating Revenues/Expenses were reclassified into the item Other Administrative Expenses ; and
(8) The partial result of derivatives used as hedge of investments abroad, which in terms of net income, simply annuls the IR/CS and PIS/COFINS tax effect of this hedge strategy .

	1H09									
	Reported Statement of Income	Reclassification (1)	(2)	(3)	(4)	(5)	(6)	(7)	Fiscal Hedge (8)	Adjusted Statement of Income
Net Interest Income	**16,748**	**(229)**	**35**	**(300)**	**(493)**	**-**	**-**	**-**	**(1,086)**	**14,675**
- Interest	13,458	-	35	(300)	-	-	-	-	-	13,193
- Non-Interest	3,290	(229)	-	-	(493)	-	-	-	(1,086)	1,482
PLL	(7,324)	-	-	-	(36)	-	-	-	-	(7,360)
Gross Income from Financial Intermediation	**9,424**	**(229)**	**35**	**(300)**	**(529)**	**-**	**-**	**-**	**(1,086)**	**7,315**
Income from Insurance, Private Pension Plan, Savings Bonds Operations	1,066	-	-	-	-	-	-	-	-	1,066
Fees and Commissions	5,698	-	-	-	-	(123)	59	-	-	5,634
Personnel Expenses	(3,760)	-	-	-	-	-	-	-	-	(3,760)
Other Administrative Expenses	(4,326)	-	-	-	-	123	-	(185)	-	(4,388)
Tax Expenses	(1,320)	-	-	-	-	-	-	-	118	(1,202)
Equity in the Earnings (Losses) of Unconsolidated Companies	19	-	-	-	-	-	-	-	-	19
Other Operating Income/Expenses	(2,231)	229	(35)	300	326	-	(59)	185	-	(1,285)
Operating Income	**4,570**	**-**	**-**	**-**	**(203)**	**-**	**-**	**-**	**(968)**	**3,399**
Non-Operating Income	1,903	-	-	-	203	-	-	-	-	2,106
IR/CS and Minority Interest	(2,453)	-	-	-		-	-	-	968	(1,485)
Net Income	**4,020**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**4,020**

(1) Commission expenses related to loans and financing were reclassified from the item Other Operating Expenses to the item Net Interest Income Non-Interest Credits ;

(2) Interest Income/Expenses, deriving from the insurance segment, were reclassified from the item Other Operating Revenues/Expenses to the item Net Interest Income Interest Insurance ;
(3) Interest Income/Expenses, deriving from the financial segment, were reclassified from the item Other Operating Revenues/Expenses to the item Net Interest Income Interest Credit ;
(4) Revenues from loan recovery, classified into the item Net Interest Income Non-Interest - Credit ; expenses related to discounts granted, classified into the item Other Operating Revenues/Expenses ; expenses related to the write-off of leasing operations, classified into the item Net Interest Income Interest Credit , and losses related to the sale of non-real estate assets BNDU, classified into the item Non-Operating Income , were reclassified into the item Provision for Loan Losses Expenses - PLL ;
(5) Third-party services expenses, classified into the item Other Administrative Expenses were reclassified into the item Fees and Commissions ;
(6) Commissions fees and credit card fees, insurance premium commissions, insurance policy fees, classified into the item Other Operating Revenues/Expenses were reclassified into the item Fees and Commissions ;
(7) Credit card operations interchange expenses, classified into the item Other Operating Revenues/Expenses were reclassified into the item Other Administrative Expenses , and;
(8) The partial result of derivatives used as hedge of investments abroad, which in terms of net income, simply annuls the IR/CS and PIS/COFINS tax effect of this hedge strategy .

R$ million

	1H08										
	Reported Statement of Income	Reclassification (1)	(2)	(3)	(4)	(5)	(6)	(7)	Extraordinary Events [8]	Fiscal Hedge [9]	Adjusted Statement of Income
Net Interest Income	**13,130**	**(501)**	**106**	**(194)**	**(509)**	**-**	**-**	**-**	**-**	**(487)**	**11,545**
- Interest	11,266	-	106	(194)	-	-	-	-	-	-	11,178
- Non-Interest	1,864	(501)	-	-	(509)	-	-	-	-	(487)	367
PLL	(3,501)	-	-	-	138	-	-	-	-	-	(3,363)
Gross Income from Financial Intermediation	**9,629**	**(501)**	**106**	**(194)**	**(371)**	**-**	**-**	**-**	**-**	**(487)**	**8,182**
Income from Insurance, Private Pension Plan, Savings Bonds Operations	1,082	-	-	-	-	-	-	-	-	-	1,082
Fees and Commissions	5,409	-	-	-	-	(113)	52	-	-	-	5,348
Personnel Expenses	(3,569)	-	-	-	-	-	-	-	-	-	(3,569)
Other Administrative Expenses	(3,844)	-	-	-	-	113	-	(148)	-	-	(3,879)
Tax Expenses	(1,253)	-	-	-	-	-	-	-	-	61	(1,192)
Equity in the Earnings (Losses) of Unconsolidated Companies	65	-	-	-	-	-	-	-	-	-	65
Other Operating Income/Expenses	(1,859)	501	(106)	194	244	-	(52)	148	109	-	(821)
Operating Income	**5,660**	**-**	**-**	**-**	**(127)**	**-**	**-**	**-**	**109**	**(426)**	**5,216**
Non-Operating Income	382	-	-	-	127	-	-	-	(387)	-	122
IR/CS and Minority Interest	(1,937)	-	-	-		-	-	-	83	426	(1,429)
Net Income	**4,105**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(195)**	**-**	**3,909**

(1) Commission expenses related to loans and financing were reclassified from the item Other Operating Expenses to the item Net Interest Income Non-Interest Credits ;
(2) Interest Income/Expenses, deriving from the insurance segment, were reclassified from the item Other Operating

Revenues/Expenses to the item Net Interest Income Interest Insurance ;
(3) Interest Income/Expenses, deriving from the financial segment, were reclassified from the item Other Operating Revenues/Expenses to the item Net Interest Income Interest Credit ;
(4) Revenues from loan recovery, classified into the item Net Interest Income Non-Interest - Credit ; expenses related to discounts granted, classified into the item Other Operating Revenues/Expenses ; expenses related to the write-off of leasing operations, classified into the item Net Interest Income Interest Credit , and losses related to the sale of non-real estate assets BNDU, classified into the item Non-Operating Income , were reclassified into the item Provision for Loan Losses Expenses - PLL ;
(5) Third party s services expenses, classified into the item Other Administrative Expenses were reclassified into the item Fees and Commissions ;
(6) Commissions fees and credit card fees, insurance premium commissions, insurance policy fees, classified into the item Other Operating Revenues/Expenses were reclassified into the item Fees and Commissions ;
(7) Credit card operations interchange expenses, classified into the item Other Operating Revenues/Expenses were reclassified into the item Other Administrative Expenses ;
(8) Basically: partial sale of Visa Internacional (R$352 million), total amortization of goodwill (R$53 million) and Constitution of Civil Provisions economic plans, above the average of the quarter (R$56 million); and
(9) The partial result of derivatives used as hedge of investments abroad, which in terms of net income, simply annuls the IR/CS and PIS/COFINS tax effect of this hedge strategy.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: August 3, 2009

BANCO BRADESCO S.A.

By: /s/ Domingos Figueiredo de Abreu

Domingos Figueiredo de Abreu
Executive Vice President and Investor Relations Officer

FORWARD-LOOKING STATEMENTS

This press release may contain forward-looking statements. These statements are statements that are not historical facts, and are based on management's current view and estimates of future economic circumstances, industry conditions, company performance and financial results. The words "anticipates", "believes", "estimates", "expects", "plans" and similar expressions, as they relate to the company, are intended to identify forward-looking statements. Statements regarding the declaration or payment of dividends, the implementation of principal operating and financing strategies and capital expenditure plans, the direction of future operations and the factors or trends affecting financial condition, liquidity or results of operations are examples of forward-looking statements. Such statements reflect the current views of management and are subject to a number of risks and uncertainties. There is no guarantee that the expected events, trends or results will actually occur. The statements are based on many assumptions and factors, including general economic and market conditions, industry conditions, and operating factors. Any changes in such assumptions or factors could cause actual results to differ materially from current expectations.