ANALOG DEVICES INC
Form 10-Q
May 22, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended May 5, 2012

OR

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

For the transition period from to

Commission File No. 1-7819

Analog Devices, Inc.

(Exact name of registrant as specified in its charter)

Massachusetts	**04-2348234**
(State or other jurisdiction of	**(I.R.S. Employer**
incorporation or organization)	**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)

(Former name, former address and former fiscal year, if changed since last report)

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 x NO ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES x NO ¨

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 x	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

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

As of May 5, 2012 there were 298,337,925 shares of common stock of the registrant, $0.16 2/3 par value per share, outstanding.

PART I - FINANCIAL INFORMATION

ITEM 1. Financial Statements
ANALOG DEVICES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(thousands, except per share amounts)

	Three Months Ended	
	May 5, 2012	April 30, 2011
Revenue	$ 675,094	$ 790,780
Cost of sales (1)	234,639	256,566
Gross margin	440,455	534,214
Operating expenses:		
Research and development (1)	127,537	130,460
Selling, marketing, general and administrative (1)	99,992	105,268
	227,529	235,728
Operating income from continuing operations	212,926	298,486
Nonoperating (income) expense:		
Interest expense	6,890	4,078
Interest income	(3,967)	(2,197)
Other, net	(1,451)	(151)
	1,472	1,730
Income before income taxes	211,454	296,756
Provision for income taxes	48,555	54,930
Net income	$ 162,899	$ 241,826
Shares used to compute earnings per share basic	298,130	299,923
Shares used to compute earnings per share diluted	305,921	309,619
Basic earnings per share	$ 0.55	$ 0.81
Diluted earnings per share	$ 0.53	$ 0.78
Dividends declared and paid per share	$ 0.30	$ 0.22
(1) Includes stock-based compensation expense as follows:		
Cost of sales	$ 1,671	$ 1,900
Research and development	$ 5,162	$ 5,794
Selling, marketing, general and administrative	$ 5,267	$ 5,199

See accompanying notes.

ANALOG DEVICES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(thousands, except per share amounts)

	Six Months Ended	
	May 5, 2012	April 30, 2011
Revenue	$ 1,323,152	$ 1,519,284
Cost of sales (1)	473,307	502,897
Gross margin	849,845	1,016,387
Operating expenses:		
Research and development (1)	251,915	253,205
Selling, marketing, general and administrative (1)	199,037	205,290
Special charge	2,595	
	453,547	458,495
Operating income from continuing operations	396,298	557,892
Nonoperating (income) expense:		
Interest expense	13,572	6,908
Interest income	(7,315)	(4,482)
Other, net	(1,499)	(110)
	4,758	2,316
Income from continuing operations before income taxes	391,540	555,576
Provision for income taxes	89,259	98,144
Income from continuing operations, net of tax	302,281	457,432
Gain on sale of discontinued operations, net of tax		6,500
Net income	$ 302,281	$ 463,932
Shares used to compute earnings per share basic	297,959	299,570
Shares used to compute earnings per share diluted	305,726	309,234
Basic earnings per share from continuing operations	$ 1.01	$ 1.53
Basic earnings per share	$ 1.01	$ 1.55
Diluted earnings per share from continuing operations	$ 0.99	$ 1.48
Diluted earnings per share	$ 0.99	$ 1.50
Dividends declared and paid per share	$ 0.55	$ 0.44

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

Cost of sales	$	3,478	$	3,648
Research and development	$	11,047	$	11,379
Selling, marketing, general and administrative	$	10,907	$	10,469

See accompanying notes.

ANALOG DEVICES, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(thousands)

	May 5, 2012	October 29, 2011
Assets		
Cash and cash equivalents	$ 695,066	$ 1,405,100
Short-term investments	3,057,559	2,187,362
Accounts receivable, net	330,282	348,416
Inventory (1):		
Raw materials	25,776	28,085
Work in process	177,808	170,398
Finished goods	100,158	96,598
	303,742	295,081
Deferred tax assets	79,898	82,171
Prepaid income tax	9,125	22,002
Prepaid expenses and other current assets	46,857	46,216
Total current assets	4,522,529	4,386,348
Property, plant and equipment, at cost:		
Land and buildings	438,873	430,453
Machinery and equipment	1,645,834	1,606,150
Office equipment	51,715	51,960
Leasehold improvements	48,232	48,338
	2,184,654	2,136,901
Less accumulated depreciation and amortization	1,705,695	1,658,062
Net property, plant and equipment	478,959	478,839
Deferred compensation plan investments	28,393	26,410
Other investments	1,816	2,951
Goodwill	280,210	275,087
Intangible assets, net	28,882	12,200
Deferred tax assets	35,364	37,645
Other assets	36,337	58,155
Total other assets	411,002	412,448
	$ 5,412,490	$ 5,277,635

(1) Includes $2,318 and $2,431 related to stock-based compensation at May 5, 2012 and October 29, 2011, respectively.
See accompanying notes.

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ANALOG DEVICES, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(thousands, except share amounts)

	May 5, 2012	October 29, 2011
Liabilities and Shareholders Equity		
Accounts payable	$ 125,746	$ 113,056
Deferred income on shipments to distributors, net	244,150	233,249
Income taxes payable	24,991	6,584
Current portion of long-term debt	14,500	14,500
Accrued liabilities	149,187	157,616
Total current liabilities	558,574	525,005
Long-term debt	847,983	871,876
Deferred income taxes	1,547	1,260
Deferred compensation plan liability	28,393	26,428
Other non-current liabilities	50,853	57,653
Total non-current liabilities	928,776	957,217
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, 298,337,925 shares issued and outstanding (297,960,718 on October 29, 2011)	49,724	49,661
Capital in excess of par value	287,840	289,587
Retained earnings	3,620,797	3,482,334
Accumulated other comprehensive loss	(33,221)	(26,169)
Total shareholders equity	3,925,140	3,795,413
	$ 5,412,490	$ 5,277,635

See accompanying notes.

ANALOG DEVICES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(thousands)

	Six Months Ended	
	May 5, 2012	April 30, 2011
Cash flows from operating activities:		
Net income	$ 302,281	$ 463,932
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation	55,114	58,959
Amortization of intangibles	18	732
Stock-based compensation expense	25,432	25,496
Gain on sale of business		(6,500)
Gain on sale of investments	(1,231)	
Excess tax benefit-stock options	(4,498)	(36,014)
Deferred income taxes	(4,139)	(11,639)
Other non-cash activity	(390)	700
Changes in operating assets and liabilities	68,202	(82,277)
Total adjustments	138,508	(50,543)
Net cash provided by operating activities	440,789	413,389
Cash flows from investing activities:		
Purchases of short-term available-for-sale investments	(4,428,475)	(1,658,766)
Maturities of short-term available-for-sale investments	3,295,587	1,480,687
Sales of short-term available-for-sale investments	261,575	259,385
Proceeds from the sale of investments	1,506	
Proceeds related to sale of businesses		10,000
Additions to property, plant and equipment	(55,426)	(59,688)
Payments for acquisitions, net of cash acquired	(24,158)	
Increase in other assets	(1,323)	(7,519)
Net cash (used for) provided by investing activities	(950,714)	24,099
Cash flows from financing activities:		
Proceeds from long-term debt		515,507
Early termination of swap agreements	18,520	
Term loan repayments	(19,250)	(3,625)
Dividend payments to shareholders	(163,818)	(131,809)
Repurchase of common stock	(122,397)	(181,157)
Net proceeds from employee stock plans	87,399	148,079
Contingent consideration payment	(1,991)	
(Decrease) increase in other financing activities	(1,989)	2,775
Excess tax benefit-stock options	4,498	36,014
Net cash (used for) provided by financing activities	(199,028)	385,784
Effect of exchange rate changes on cash	(1,081)	1,489

Net (decrease) increase in cash and cash equivalents	(710,034)	824,761
Cash and cash equivalents at beginning of period	1,405,100	1,070,000
Cash and cash equivalents at end of period	$ 695,066	$ 1,894,761

See accompanying notes.

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ANALOG DEVICES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND SIX MONTHS ENDED MAY 5, 2012

(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 Analog Devices, Inc. s (the Company) Annual Report on Form 10-K for the fiscal year ended October 29, 2011 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, 2012 or any future period.

The Company sold its baseband chipset business and related support operations, or Baseband Chipset Business, to MediaTek Inc., during the first quarter of fiscal 2008. The Company has reflected the financial results of this business as discontinued operations in the condensed consolidated statements of income for all periods presented.

Certain amounts reported in previous years have been reclassified to conform to the fiscal 2012 presentation. Such reclassified amounts are immaterial. The Company has a 52-53 week fiscal year that ends on the Saturday closest to the last day in October. Fiscal 2012 is a 53-week fiscal year and fiscal 2011 was a 52-week fiscal year. The additional week in fiscal 2012 was included in the first quarter ended February 4, 2012. Therefore, the first six months of fiscal 2012 included an additional week of operations as compared to the first six months of fiscal 2011.

Note 2 Revenue Recognition

Revenue from product sales to customers is generally recognized when title passes, which for shipments to certain foreign countries is subsequent to product shipment. Title for these shipments ordinarily passes within a week of shipment. A reserve for sales returns and allowances for customers is recorded based on historical experience or specific identification of an event necessitating a reserve.

In all regions of the world, the Company defers revenue and the related cost of sales on shipments to distributors until the distributors resell the products to their customers. As a result, the Company s revenue fully reflects end customer purchases and is not impacted by distributor inventory levels. Sales to distributors are made under agreements that allow distributors to receive price-adjustment credits, as discussed below, and to return qualifying products for credit, as determined by the Company, 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 the value of the Company s shipments to that distributor during the prior quarter. In addition, distributors are allowed to return unsold products if the Company terminates the relationship with the distributor.

Distributors are granted price-adjustment credits for sales to their customers when the distributor s standard cost (i.e., the Company s sales price to the distributor) does not provide the distributor with an appropriate margin on its sales to its customers. As distributors negotiate selling prices with their customers, the final sales price agreed to with the customer will be influenced by many factors, including the particular product being sold, the quantity ordered, the particular customer, the geographic location of the distributor and the competitive landscape. As a result, the distributor may request and receive a price-adjustment credit from the Company to allow the distributor to earn an appropriate margin on the transaction.

Distributors are also granted price-adjustment credits in the event of a price decrease subsequent to the date the product was shipped and billed to the distributor. Generally, the Company will provide a credit equal to the difference between the price paid by the distributor (less any prior credits on such products) and the new price for the product multiplied by the quantity of such product in the distributor s inventory at the time of the price decrease.

Given the uncertainties associated with the levels of price-adjustment credits to be granted to distributors, the sales price to the distributor is not fixed or determinable until the distributor resells the products to their customers. Therefore, the Company defers revenue recognition from sales to distributors until the distributors have sold the products to their customers.

Title to the inventory transfers to the distributor at the time of shipment or delivery to the distributor, and payment from the distributor is due in accordance with the Company s standard payment terms. These payment terms are not contingent upon the distributors sale of the products to their customers. Upon title transfer to distributors, inventory is reduced for the cost of goods shipped, the margin (sales less cost of sales) is recorded as deferred income on shipments to distributors, net and an account receivable is recorded.

The deferred costs of sales to distributors have historically had very little risk of impairment due to the margins the Company earns on sales of its products and the relatively long life-cycle of the Company s products. Product returns from distributors that are ultimately scrapped have historically been immaterial. In addition, price protection and price-adjustment credits granted to distributors historically have not exceeded the margins the Company earns on sales of its products. The Company continuously monitors the level and nature of product returns and is in continuous contact with the distributors to ensure reserves are established for all known material issues.

As of May 5, 2012 and October 29, 2011, the Company had gross deferred revenue of $311.6 million and $309.6 million, respectively, and gross deferred cost of sales of $67.5 million and $76.4 million, respectively. Deferred income on shipments to distributors increased by approximately $10.9 million in the first six months of fiscal 2012 as a result of the Company s shipments to its distributors exceeding the distributors sales to their customers during the same time period.

Shipping costs are charged to cost of sales as incurred.

The Company generally offers a 12-month warranty for its products. The Company s warranty policy provides for replacement of the defective product. Specific accruals are recorded for known product warranty issues. Product warranty expenses during the three- and six-month periods ended May 5, 2012 and April 30, 2011 were not material.

Note 3 Stock-Based Compensation

Grant-Date Fair Value The Company uses the Black-Scholes valuation model to calculate the grant-date fair value of stock option awards. The grant-date fair value of restricted stock units represents the value of the Company s common stock on the date of grant, reduced by the present value of dividends expected to be paid on the Company s common stock prior to vesting.

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 six-month periods ended May 5, 2012 and April 30, 2011 are as follows:

	Three Months Ended		Six Months Ended	
Stock Options	**May 5, 2012**	**April 30, 2011**	**May 5, 2012**	**April 30, 2011**
Options granted (in thousands)*	2,178	87	2,227	1,960
Weighted-average exercise price	$ 39.77	$ 39.27	$ 39.71	$ 37.60
Weighted-average grant-date fair value	$ 7.48	$ 8.39	$ 7.50	$ 8.63
Assumptions:				
Weighted-average expected volatility	28.5%	26.8%	28.6%	29.3%
Weighted-average expected term (in years)	5.3	5.3	5.3	5.3
Weighted-average risk-free interest rate	1.1%	2.2%	1.1%	2.1%
Weighted-average expected dividend yield	3.0%	2.2%	3.0%	2.3%

* Under the Company s equity award grant date policy the grant date of the Company s annual equity awards has been the second business day following January 1st in the Company s first fiscal quarter. In fiscal year 2012, the grant date of the Company s annual equity awards was changed to March 15th, in the Company s second fiscal quarter.

Expected volatility The Company is responsible for estimating volatility and has considered a number of factors, including third-party estimates, when estimating volatility. The Company currently believes that the exclusive use of implied volatility results in the best estimate of the grant-date fair value of employee stock options because it reflects the market s current expectations of future volatility. In evaluating the appropriateness of exclusively relying on implied volatility, the Company concluded that: (1) options in the Company s common stock are actively traded with sufficient volume on several exchanges; (2) the market prices of both the traded options and the underlying shares are measured at a similar point in time to each other and on a date close to the grant date of the employee share options; (3) the traded options have exercise prices that are both near-the-money and close to the exercise price of the employee share options; and (4) the remaining maturities of the traded options used to estimate volatility are at least one year.

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

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

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

Stock-Based Compensation Expense

The amount of stock-based compensation expense recognized during a period is based on the value of the awards that are ultimately expected to vest. Forfeitures are 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 May 5, 2012. The rate of 4.3% represents the portion that is expected to be forfeited each year over the vesting period. This analysis will be re-evaluated quarterly and the forfeiture rate will be adjusted as necessary. Ultimately, the actual expense recognized over the vesting period will only be for those options that vest.

Additional paid-in-capital (APIC) Pool

The APIC pool represents the excess tax benefits related to share-based compensation that are available to absorb future tax deficiencies. If the amount of future tax deficiencies is greater than the available APIC pool, the Company records the excess as income tax expense in its condensed consolidated statements of income. During the three- and six-month periods ended April 30, 2011, the Company had a sufficient APIC pool to provide for any tax deficiencies recorded and as a result, these deficiencies did not affect its results of operations. During the three-month period ended February 4, 2012, the Company recognized $1.8 million of income tax expense resulting from tax shortfalls related to share-based compensation in its condensed consolidated statement of income. During the three-month period ended May 5, 2012, the Company recorded excess tax benefits of $0.3 million. The Company applied these excess tax benefits to the income tax expense previously recorded during the three-month period ended February 4, 2012, resulting in $1.5 million of income tax expense for the six months ended May 5, 2012.

Stock-Based Compensation Activity

A summary of the activity under the Company s stock option plans as of May 5, 2012 and changes during the three-and six month periods then ended is presented below:

Activity during the Three Months Ended May 5, 2012	**Options Outstanding (in thousands)**	**Weighted-Average Exercise Price Per Share**	**Weighted-Average Remaining Contractual Term in Years**	**Aggregate Intrinsic Value**
Options outstanding February 4, 2012	29,959	$ 29.88		
Options granted	2,178	$ 39.77		
Options exercised	(1,594)	$ 24.39		
Options forfeited	(99)	$ 28.10		
Options expired	(6)	$ 39.56		
Options outstanding at May 5, 2012	30,438	$ 30.88	4.8	$ 221,543
Options exercisable at May 5, 2012	19,068	$ 31.07	3.9	$ 137,506
Options vested or expected to vest at May 5, 2012 (1)	29,816	$ 30.81	4.7	$ 218,788

(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.

Activity during the Six Months Ended May 5, 2012	Options Outstanding (in thousands)	Weighted-Average Exercise Price Per Share
Options outstanding October 29, 2011	34,116	$ 30.27
Options granted	2,227	$ 39.71
Options exercised	(3,530)	$ 24.86
Options forfeited	(288)	$ 27.65
Options expired	(2,087)	$ 41.05
Options outstanding at May 5, 2012	30,438	$ 30.88

During the three and six months ended May 5, 2012, 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 $24.4 million and $49.3 million, respectively, and the total amount of proceeds received by the Company from exercise of these options was $38.9 million and $87.8 million, respectively. Proceeds from stock option exercises pursuant to employee stock plans in the Company s statement of cash flows during the six months ended May 5, 2012 of $87.4 million are net of the value of shares surrendered by employees in certain limited circumstances to satisfy the exercise price of options and employee tax obligations upon vesting of restricted stock units and in connection with the exercise of stock options granted to the Company s employees under the Company s equity compensation plans. The withholding amount is based on the Company s minimum statutory withholding requirement.

During the three and six months ended April 30, 2011, 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 $23.0 million and $69.7 million, respectively, and the total amount of proceeds received by the Company from exercise of these options was $46.2 million and $148.2 million, respectively. Proceeds from stock option exercises pursuant to employee stock plans in the Company s statement of cash flows during the six months ended April 30, 2011 of $148.1 million are net of the value of shares surrendered by employees in certain limited circumstances to satisfy the exercise price of options and employee tax obligations upon vesting of restricted stock units and in connection with the exercise of stock options granted to the Company s employees under the Company s equity compensation plans. The withholding amount is based on the Company s minimum statutory withholding requirement.

A summary of the Company s restricted stock unit award activity as of May 5, 2012 and changes during the three- and six-month periods then ended is presented below:

Activity during the Three Months Ended May 5, 2012	Restricted Stock Units Outstanding (in thousands)	Weighted-Average Grant-Date Fair Value Per Share
Restricted stock units outstanding at February 4, 2012	2,070	$ 31.20
Units granted	821	$ 36.26
Restrictions lapsed	(26)	$ 31.21
Forfeited	(35)	$ 27.76
Restricted stock units outstanding at May 5, 2012	2,830	$ 32.71

Activity during the Six Months Ended May 5, 2012	Restricted Stock Units Outstanding (in thousands)	Weighted-Average Grant-Date Fair Value Per Share
Restricted stock units outstanding at October 29, 2011	2,088	$ 31.10
Units granted	843	$ 36.19
Restrictions lapsed	(47)	$ 27.68
Forfeited	(54)	$ 29.08
Restricted stock units outstanding at May 5, 2012	2,830	$ 32.71

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As of May 5, 2012, there was $107.5 million of total unrecognized compensation cost related to unvested share-based awards comprised of stock options and restricted stock units. That cost is expected to be recognized over a weighted-average period of 1.5 years. The total grant-date fair value of shares that vested during the three and six months ended May 5, 2012 was approximately $1.8 million and $26.8 million, respectively. The total grant-date fair value of shares that vested during the three and six months ended April 30, 2011 was approximately $1.4 million and $27.0 million, respectively,

Note 4 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	
	May 5, 2012	**April 30, 2011**
Net income	$ 162,899	$ 241,826
Foreign currency translation adjustments	(1,389)	6,180
Change in unrealized holding losses (net of taxes of $435 and $5, respectively) on securities classified as short-term investments	(2,034)	(38)
Change in unrealized holding (losses) gains (net of taxes of $398 and $23, respectively) on securities classified as other investments	(740)	43
Change in unrealized gains (net of taxes of $416 and $850, respectively) on derivative instruments designated as cash flow hedges	2,635	5,666
Pension plans		
Transition obligation	(2)	(3)
Net actuarial loss	(273)	(3,060)
Other comprehensive (loss) gain	(1,803)	8,788
Comprehensive income	$ 161,096	$ 250,614

	Six Months Ended	
	May 5, 2012	April 30, 2011
Income from continuing operations, net of tax	$ 302,281	$ 457,432
Foreign currency translation adjustments	(3,641)	6,159
Change in unrealized holding (losses) gains (net of taxes of $229 and $18, respectively) on securities classified as short-term investments	(887)	124
Change in unrealized holding (losses) gains (net of taxes of $300 and $63, respectively) on securities classified as other investments	(558)	117
Change in unrealized (losses) gains (net of taxes of $413 and $449, respectively) on derivative instruments designated as cash flow hedges	(3,106)	2,643
Pension plans		
Transition obligation	(1)	(2)
Net actuarial gain (loss)	1,141	(2,155)
Other comprehensive (loss) gain	(7,052)	6,886
Comprehensive income from continuing operations	295,229	464,318
Gain on sale of discontinued operations, net of tax		6,500
Comprehensive income	$ 295,229	$ 470,818

The components of accumulated other comprehensive loss, net of tax, at May 5, 2012 and October 29, 2011 consisted of the following:

	May 5, 2012	October 29, 2011
Foreign currency translation adjustment	$ (5,679)	$ (2,038)
Unrealized gains on available-for-sale securities	79	695
Unrealized losses on available-for-sale securities	(1,470)	(641)
Unrealized (losses) gains on derivative instruments	(1,419)	1,687
Pension plans		
Transition obligation	(118)	(117)
Net actuarial loss	(24,614)	(25,755)
Total accumulated other comprehensive loss	$ (33,221)	$ (26,169)

The aggregate fair value of investments with unrealized losses as of May 5, 2012 and October 29, 2011 was $1,965.0 million and $1,899.4 million, respectively. These unrealized losses were primarily related to commercial paper that earns lower interest rates than current market rates. None of these investments have been in a loss position for more than twelve months.

Unrealized gains and losses on available-for-sale securities classified as short-term investments at May 5, 2012 and October 29, 2011 are as follows:

	May 5, 2012	October 29, 2011
Unrealized gains on securities classified as short-term investments	$ 118	$ 22
Unrealized losses on securities classified as short-term investments	(1,812)	(600)
Net unrealized losses on securities classified as short-term investments	$ (1,694)	$ (578)

Realized gains or losses on investments are determined based on the specific identification basis and are recognized in nonoperating (income) expense. Gross realized gains and losses on sales of available-for-sale investments were approximately $1.3 million and approximately $0.1 million, respectively, in the three- and six-month periods ended May 5, 2012. There were no material net realized gains or losses from the sales of available-for-sale investments during any other of the fiscal periods presented.

Note 5 Earnings Per Share

Basic earnings per share is computed based only on the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed using the weighted average number of common shares outstanding during the period, plus the dilutive effect of 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, the assumed proceeds under the treasury stock method include the average unrecognized compensation expense of stock options that are in-the-money and restricted stock units. This results in the assumed buyback of additional shares, thereby reducing the dilutive impact of in-the-money stock options. Potential shares related to certain of the Company s outstanding stock options were excluded because they were anti-dilutive. Those potential shares, determined based on the weighted average exercise prices during the respective years, related to the Company s outstanding stock options could be dilutive in the future.

	Three Months Ended	
	May 5, 2012	**April 30, 2011**
Net Income	162,899	241,826
Basic shares:		
Weighted-average shares outstanding	298,130	299,923
Earnings per share Basic:	$ 0.55	$ 0.81
Diluted shares:		
Weighted-average shares outstanding	298,130	299,923
Assumed exercise of common stock equivalents	7,791	9,696
Weighted-average common and common equivalent shares	305,921	309,619
Earnings per share Diluted:	$ 0.53	$ 0.78
Weighted average anti-dilutive shares related to:		
Outstanding stock options	3,954	4,909

	Six Months Ended	
	May 5, 2012	**April 30, 2011**
Income from continuing operations, net of tax	$ 302,281	$ 457,432
Gain on sale of discontinued operations, net of tax		6,500
Net income	$ 302,281	$ 463,932
Basic shares:		
Weighted-average shares outstanding	297,959	299,570
Earnings per share-basic:		
Income from continuing operations, net of tax	$ 1.01	$ 1.53
Gain on sale of discontinued operations, net of tax		0.02
Net income	$ 1.01	$ 1.55
Diluted shares:		
Weighted-average shares outstanding	297,959	299,570
Assumed exercise of common stock equivalents	7,767	9,664
Weighted-average common and common equivalent shares	305,726	309,234
Earnings per share-diluted:		
Income from continuing operations, net of tax	$ 0.99	$ 1.48
Gain on sale of discontinued operations, net of tax		0.02
Net income	$ 0.99	$ 1.50
Weighted average anti-dilutive shares related to:		
Outstanding stock options	5,433	6,503

Note 6 Special Charges

The Company monitors global macroeconomic conditions on an ongoing basis, and continues to assess opportunities for improved operational effectiveness and efficiency and better alignment of expenses with revenues. As a result of these assessments, the Company has undertaken various restructuring actions over the past several years. These actions are described below.

The following tables display the special charges taken for ongoing actions and a roll-forward from October 29, 2011 to May 5, 2012 of the employee separation and exit cost accruals established related to these actions.

	Reduction of Operating Costs				
Statement of Income	**2008**	**2009**	**2010**	**2011**	**2012**
Workforce reductions	$ 1,627	$ 26,583	$ 10,908	$ 2,239	$ 2,535
Facility closure costs		2,411			
Non-cash impairment charge		839	487		
Other items		500	24		60
Total Charges	$ 1,627	$ 30,333	$ 11,419	$ 2,239	$ 2,595

Accrued Restructuring	**Reduction of Operating Costs**
Balance at October 29, 2011	$ 3,876
Fiscal 2012 special charges	2,595
Severance payments	(1,359)
Balance at February 4, 2012	$ 5,112
Severance payments	(2,760)
Balance at May 5, 2012	$ 2,352

Reduction of Operating Costs

During fiscal 2008 through fiscal 2010, the Company recorded special charges of approximately $43.3 million. These special charges included: $39.1 million for severance and fringe benefit costs in accordance with its ongoing benefit plan or statutory requirements at foreign locations for 245 manufacturing employees and 470 engineering and selling, marketing, general and administrative (SMG&A) employees; $2.1 million for lease obligation costs for facilities that the Company ceased using during the first quarter of fiscal 2009; $0.8 million for the write-off of property, plant and equipment; $0.5 million for contract termination costs and $0.3 million for clean-up and closure costs that were expensed as incurred; and $0.5 million related to the impairment of intellectual property. The Company terminated the employment of all employees associated with these actions and is paying amounts owed to them as income continuance.

During fiscal 2011, the Company recorded a special charge of approximately $2.2 million for severance and fringe benefit costs in accordance with its ongoing benefit plan or statutory requirements at foreign locations for 25 engineering and SMG&A employees. As of May 5, 2012, the Company employed 3 of the 25 employees included in this cost reduction action. These employees must continue to be employed by the Company until their employment is involuntarily terminated in order to receive the severance benefit.

During the first quarter of fiscal 2012, the Company recorded a special charge of approximately $2.6 million. The special charge included $2.5 million for severance and fringe benefit costs in accordance with its ongoing benefit plan or statutory requirements at foreign locations for 34 manufacturing, engineering and SMG&A employees and $0.1 million for contract termination costs. The Company terminated the employment of all employees associated with these actions and is paying amounts owed to them as income continuance.

Note 7 Segment Information

The Company operates and tracks its results in one reportable segment based on the aggregation of five operating segments. 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.

Revenue Trends by End Market

The following table summarizes revenue 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 May 5, 2012			Three Months Ended April 30, 2011	
	Revenue	% of Revenue	Y/Y%	Revenue	% of Revenue
Industrial	$ 323,441	48%	(16)%	$ 386,697	49%
Automotive	118,009	17%	10%	107,171	14%
Consumer	107,994	16%	(20)%	135,256	17%
Communications	125,650	19%	(22)%	161,656	20%
Total revenue	**$ 675,094**	**100%**	**(15)%**	**$ 790,780**	**100%**

	Six Months Ended May 5, 2012			Six Months Ended April 30, 2011	
	Revenue	% of Revenue	Y/Y%	Revenue	% of Revenue*
Industrial	$ 612,113	46%	(16)%	$ 726,013	48%
Automotive	238,506	18%	18%	202,399	13%
Consumer	224,880	17%	(20)%	280,562	18%
Communications	247,653	19%	(20)%	310,310	20%
Total revenue	**$ 1,323,152**	**100%**	**(13)%**	**$ 1,519,284**	**100%**

* The sum of the individual percentages does not equal the total due to rounding.

Revenue Trends by Product Type

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 May 5, 2012			Three Months Ended April 30, 2011	
	Revenue	% of Revenue*	Y/Y%	Revenue	% of Revenue
Converters	$ 300,040	44%	(14)%	$ 350,187	44%
Amplifiers / Radio frequency	177,813	26%	(17)%	213,140	27%
Other analog	90,790	13%	(18)%	111,037	14%
Subtotal analog signal processing	568,643	84%	(16)%	674,364	85%
Power management & reference	46,060	7%	(18)%	56,125	7%
Total analog products	**$ 614,703**	**91%**	**(16)%**	**$ 730,489**	**92%**