FINAL TRANSCRIPT

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ADI - Q1 2009 Analog Devices Inc. Earnings Conference Call

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PRESENTATION

Operator

Good afternoon. At this time, I would like to welcome everyone to the Analog Devices first quarter 2009 earnings conference call. All lines have been placed on mute to prevent any background noise. After the opening remarks there will be a question-and-answer period with our analyst participants. (Operator Instructions). Thank you, Ms. Kohl you may begin your conference.

Mindy Kohn - *Analog Devices Inc. - Director of IR*

Thanks, Christi and good afternoon, everyone. This is Mindy Kohl, director of investor relations for Analog Devices. If you do not yet have our first quarter 2009 release, you can access it by visiting our website at www.analog.com and clicking on the headline on the home page. This conference call is also being broadcast live on the internet. From analog.com select investor relations and follow the instructions shown next to the microphone icon. A recording of this conference call will be available today within about two hours of the call's completion and will remain available via phone for one week. This webcast will also be archived on our IR website.

Participating in today's call are Jerry Fishman, President and CEO, and Dave Zinsner, Vice President of finance and CFO. We've scheduled this call for 60 minutes. Jerry will present the results of our first quarter during the first section of the call and the remainder of the time will be devoted to answering questions from our analyst participants. (Operator Instructions). During today's call we will refer to several non-GAAP financial measures that have been adjusted for one-time items in order to provide investors with useful information regarding our results of operations and business trends. We have included reconciliations of these non-GAAP measures to the most directly comparable GAAP measures in today's earnings release, which is posted on the IR website. We've also updated the schedules on the website, which include the historical quarterly and annual summery of P&Ls for continuing ops, as well as historical quarterly and annual information for product revenue from continuing operations by end market and by product type.

Next I'd ask you to please note that the information we're about to discuss includes forward-looking statements which include risks and uncertainties. The Company's actual results could differ materially from those we will be discussing. Factors that could contribute to such differences included, but are not limited to those described in the Company's SEC filings, including our most-recent quarterly report on Form 10-Q filed this afternoon. The forward-looking information that is provided by the Company in this call represents the Company's outlook as today and we do not undertake any obligation to update the forward-looking statements made by us. Subsequent events and developments may cause the Company's outlook to change, therefore this conference call will include time sensitive information that may be accurate only as of the date of the live broadcast, which is February 18th, 2009.

With that I'll turn the call over to Jerry.

Jerry Fishman - *Analog Devices Inc. - President & CEO*

Well, good afternoon. Before I begin making a few comments I'd like to make before the Q&A period, I'd like to take the opportunity to formally introduce Dave Zinsner, who's our newly-joined Chief Financial Officer after Joe McDonough finally got the opportunity to retire. Many of you know Dave from his years of prior experience in the analog industry, and given his very strong understanding of the markets that we're in and he's an experienced CFO, we expect Dave to be a very key contributor to ADI on both strategic and operational questions. And in fact, in just the brief period he's been here he's already had an impact on our thinking on a lot of areas and I can say that we're very delighted to have him on board and I think you'll find him to be a great addition to the team here at ADI.

As all of you are well aware these are really unprecedented times. The falling demand and consumer confidence have significantly pressured technology spending worldwide and continues to do so. This coupled with the very significant inventory reductions at customers and distributors has negatively impacted the financial performance of the semiconductor industry and of course, ADI is part of that industry. Even after very significant revenue declines across the industry during the past few months, today visibility still remains weak and neither the length nor the severity of the recession is very clear at this point. While in the very short term there's not too much we can do to influence the revenue line, there are things that we have done and will continue to do in the coming quarters to better position ADI for the point when economic and sales growth do resume.

Over the past year, well before the downturn began, we began a process to fundamentally improve our product mix by focusing our investments on market and product areas that offered the best long-term opportunity for both growth and for profits. As a result we exited the cell phone base band chipset business and the PC desktop power businesses. In many ways our timing was very fortunate and as a result we were able to sell these businesses at a good price, and also at the same time provide our path forward for our customers, as well as to the employees that were in those businesses.

As business conditions began to deteriorate last quarter, we implemented a series of both short-term core saving measures and also permanent infrastructure cost reductions, while continuing the process to consistently improve our product mix and to invest in product areas that we believe will generate the highest level of returns in the future. As the economy recovers our goal is to produce meaningful leverage for more focused investments and a much leaner infrastructure, and as a result we believe our gross and operating margins will exceed what we achieved in the last cycle. Said another way, our goal is to achieve comparable margins at lower sales levels than previously required and higher margins at comparable revenue levels.

Now I'd like to turn to -- make a few comments about our results for the quarter. As you know from the press release our revenues were about $477 million. They were down approximately 22% from the prior year and 28% sequentially, which was at the mid point of our updated guidance that we provided recently. That in a single quarter is 103 -- $183 million revenue decline in a single quarter. While the magnitude of the sequential revenue declines varied, every end market and every product area experienced some decrease. Not surprisingly, markets that have dominated by products ultimately purchased by the consumer, including wireless handsets, advanced televisions, digital cameras and automotive applications were down the most sharply. At the same time products sold to industrial and to infrastructure customers declined relatively less on a sequential basis.

As in most previous quarters my comments this afternoon will refer to information that's already posted on our investor website, which provides an analysis of our revenues from continuing operations for the past five years by both end market and by product type. This level and format of data provides a very long-term perspective, which we believe is useful in monitoring our results, particularly in this very rapidly changing environment. Revenues from our broad base of industrial customers, which in Q1 was 54 % of our total revenues, were down 22% year over year and 24% sequentially. Our fiscal first quarter industrial sales tend to be seasonally weak due to the number -- the lower number of manufacturing days during that quarter. However, the industrial end market was really severely impacted also by the worldwide economic slow down.

Within the industrial category automotive sales suffered a great decline. This should, of course, come as no surprise given the current state of auto sales worldwide and the significant reductions in component inventories at all car makers, particularly as many car lines were shut down for extended periods of time at year end. As a result of very significant investments that we've made in proprietary automotive technologies for new safety, sensing, control and high-end auto entertainment applications, we have a very compelling automobile product portfolio. But even having all these new innovative products of course couldn't overcome the disastrous conditions in today's automotive market.

To a lesser extent we've also seen weakness in products sold into other industrial end markets, including healthcare and instrumentation. Many of these markets have been impacted by the lack of available debt to finance expansion. However, new product development is continuing at our customers and we continue to see good design win momentum in many different industrial market segments. In a few industrial markets the decline has been less severe. Revenues from defense customers declined only slightly and products that sell into the industrial infrastructure, particularly in China, were relatively less affected. All in all, the sales decline in the industrial market was slightly lower than the Company average in Q1.

In the first quarter our revenues from communications customers were 27% of our total revenues; they were down 3% from last year, and 22% from the prior quarter. This end market, which for ADI is heavily infrastructure dependent, has performed better than most other major end markets, particularly in China where communications infrastructure investments have been accelerated by the government to enhance its competitiveness and also to stabilize its economy. In January China awarded 3G licenses to multiple carriers and suppliers have begun gearing up to manufacturer the equipment for those carriers. As you know, ADI has a very high market share in the cellular basestation market and we're therefore well positioned to benefit from these rollouts in future quarters.

Our most significant review decline in Q1 was in the consumer market, which fell 40% year over year and declined 42% sequentially from the prior quarter. This is obviously the result of a broad-based decline in consumer spending on electronics. We invest in products for the high performance part of the consumer market in applications such as digital TVs, cameras and also very high-end home audio products. In this space the leading customers still value innovation over price, despite their current challenges and of course there are many. Our goal is to continue to provide solutions to our customers and change the user experience, thereby providing good growth at reasonable margins. As a result of the significant declines we saw in consumer products in Q1, our consumer revenues comprised only 16% of our total revenues in Q1, down from 20% of our revenues during the prior quarter.

Revenues from computer customers, which comprised only 3% of our revenues in Q1, declined 35% year over year, 38% sequentially, in line with a weak PC market. During Q1 we exited our PC audio components business, which is about a $20 million business for ADI as part of our continuing efforts to improve product mix and to reduce investments in products for the PC market. Geographically revenues were down the most significantly, as you'd expect, in areas with a high concentration of consumer customers. Japan declined approximately 40% sequentially and Asia was down about 30% sequentially. However, within Asia, products sold into the communications end market actually experienced some growth. Europe was down 25% sequentially, mostly due to the falloff in automotive revenues and to a slightly lesser extent, a falloff in the core industrial revenues, while North America declined least, down 19% quarter over quarter.

In order to leave the maximum amount of time for Q&A, I don't plan this afternoon to comment on the product data trends that we usually comment on, since these are very clearly delineated in today's press release, as well as in the schedules in our investor website and our sense is that you'd prefer more Q&A than us reciting things that you can read readily in those areas. As we've discussed previously our revenues were $477 million. It was down about 22% year over year and almost 28% from the prior quarter. Gross margins were about 56.5% and it was down approximately 500 basis points from the previous quarter. This decline in gross margins was primarily due to under absorption on significantly lower production rates in our factories to minimize inventories. This was offset slightly by a better product mix, as revenues from the higher-margin industrial and communications end markets declined less than our revenues for the consumer and computer end markets, which have lower gross margins.

As we discussed last quarter our goal was to reduce operating expenses by $25 million, or 10% per quarter, with half of that reduction achieved in the first quarter. In fact our operating expenses, excluding restructuring costs, were approximately $208 million, down more than $30 million sequentially, or 13% sequentially down from the prior quarter. We took more aggressive steps to reduce costs as the outlook worsened during the quarter. These reductions were achieved by more scrutiny on product investments we were making, extended vacation periods, and reducing variable compensation and many discretionary costs throughout the Company.

We also began a process to permanently reduce infrastructure costs corporate wide in line with the revenues that we think we can achieve over the next couple of quarters. As a result of very careful management of expenses, our non-GAAP operating income was $61 million, or just under 13% of sales, which is not a bad achievement given $184 million sequential decline in revenues in a single quarter. Excluding restructuring charges, diluted earnings from continuing operations were $0.18 and the majority of the decline was caused by the decline in sales, which of course then significantly reduced factory utilization and gross margins on top of that. Nonoperating income was also down due to the lower interest rates we can achieve on keeping our investments safe in a very troubled environment. Our tax rate was just over 23% and should remain at approximately that level for the balance of the year under our current assumptions.

Our cash flow from operations was $60 million and capital was about $22 million. We've significantly reduced our capital spending plans for the year, down from $157 million last year to under $60 million this year and the bulk of that capital expenditures are tied to our fab consolidation products, which will fundamentally and permanently reduce our infrastructure costs at Analog in the future. Inventory increased by only $6 million sequentially, as we reacted quickly to an eroding order rate during the quarter and also despite the fact that ADI's inventory and distribution declined by $35 million sequentially, as distributors reacted to preserve their own cash.

Most of the inv -- the very slight increase in inventory we had was a build-ahead related to the consolidation of our US fabs into one location. Since our days in inventory are now at the high end of our model we will continue to operate our fabs at significantly lower production rates for at least the next few quarters. Accounts receivable declined by about $80 million from last quarter due to lower sales and our DSOs increased by only one day to 45 days. This is a very impressive result in Analog in an environment where credit is extremely tight and most customers are trying to stretch out receivables. During the quarter, we paid out $58 million in dividends and at current stock prices our dividend yield's approximately 4%. We ended the quarter with about $1.3 billion in cash and no debt.

The slow down in our order rates exacerbated during the month of December, which caused us to revise our guidance just after the holidays. In January and so far in early February, the order rate for achieving have begun to stabilize, albeit at current low rates. Our book-to-bill ratio for Q1 as measured by end-customer bookings was approximately 0.9. So at this point in the cycle, given the very short lead times and the continuing economic uncertainty that's out there, we continue to receive a very significant portion of our new orders as turns orders rather than as long-term backlog as we'd typically see when supply and demand are in good balance. Therefore, we have very limited visibility for the next few months, and as a result our current expectation in Q2 is our revenues will decline somewhere between 5% and 15% sequentially.

While we believe that it's important to continue to invest in new growth development so that as growth resumes we'll be well positioned competitively, we also need to face the possibility that the current economic environment could linger for some period of time or erode even further in the future. As such, we think it's prudent to continue to reduce costs through ADI to respond to what we -- to what may be a reset in expectations of revenues that are available to technology companies like us in the short term. During our second quarter, we continue to take proactive measures to avoid inventory build up by furthering lowering -- further lowering our manufacturing output. As a result, our factory utilization is expected to decline to approximately 40% in Q2, down from the mid-50s last quarter and that, of course, will temporarily pressure our gross margins.

We are now concluding the consolidation of our 6 and 8-inch fabs in Ireland and we're accelerating our plans to consolidate our two remaining US fabs. We expect to have that completed towards year end. These two actions will significantly reduce our manufacturing costs going forward to the tune of a few percentage points of gross margin. As a result of our restructuring actions and further spending reductions, we expect Q2 operating expenses will be down, again, by an additional 3% to 4% from Q1, or a combination of 16% to 17% on a cumulative basis over the two-quarter period. Assuming this level of cost reduction and revenues, we expect at the mid point of our revenue guidance gross margins will be approximately 53% to 54% and diluted earnings from continuing operations will be in the range of $0.08 to $0.09, excluding restructuring charges that we'll determine in Q2.

While no one can certainly, today, predict how long or how deep this recession will be, it's possible and some say likely that there has been a fundamental reset in the revenues that technology companies will likely achieve in the coming quarters. This has caused many companies to enter the "survival mode." In fact, as I talk to many CEOs of other technology companies and also many industry analysts, there seems to be a defeated sense out there that survival is the key objective, that no growth -- or that growth is no longer possible since there are no new killer applications on the horizon and that a never-ending series of cost cuts is inevitable and it will go on forever. At ADI we tend to think about the future somewhat differently. Certainly we must react and we have reacted to the new reality of lower revenues, which may last a few quarters or a few years, certainly no one can be certain of that, and that forces us to continue raising the bar for investments in new technology.

As I mentioned earlier, we're fortunate that we began this process on focusing on more sustainable and profitable markets 18 months ago, well before the economic crisis developed. In addition, we began a process to significantly reduce our infrastructure costs corporate -wide by not only changing the way and locations -- the way we manufacturer our products and sell our products, but also the way we deliver services to our customers and to our employees. This process is ongoing and we'll continue to reduce our operating costs, as well as our product costs. We've made good progress to date, but there's much more left to do.

The cost reductions that we achieved in Q1, which surpassed the internal objectives we have, along with those planned in Q2 demonstrate that our management and also, I would add, our employees take the current situation very seriously and are committed to lowering ADI's costs worldwide. Offensively speaking, lower costs will enable us to deliver higher margins when growth resumes and defensively speaking, we must position ADI to remain financially strong, even if revenues continue to decline in the short term. At the same time we'd note that innovation has been the foundation of ADI for over 40 years. Developing better products than our competition that provide tangible advantage to our customers has been the cornerstone of decades of solid returns to our investors. This tradition continues and I, for one, am very encouraged by the feedback we get from our customers around the world, which is incredibly positive and supportive, as ADI continues to be viewed as a technology innovator and leader, a dependable partner, a trustworthy company, and financially stable, which in this market is a very important differentiator.

Now more than ever it's important for us to look for every opportunity to keep engaged with our customers through this cycle to ensure that they not only know what we're planning for the future, but also how we can help them build great products that will begin to generate revenue momentum for them moving forward. And there were plenty of opportunities across virtually every end market segment to do just that. Our innovations are continuing to play an increasingly important role in achieving fundamental improvements in productivity; in industrial applications; new medical imaging techniques to aid early diagnosis and reduce medical costs; new safety, fuel efficiency and entertainment features in automobiles; reduced energy consumption in the energy conversion distribution and management market; much more efficient wired and wireless communications infrastructure; new features in portable products; and of course, the next generation of mind expanding consumer products.

Our job, and in fact the challenge that we've given the organization is to strike a balance between innovating in areas with the most pay back, while ensuring a relentless focus on reducing our infrastructure costs corporate wide. Ultimately our goal is to use this cycle to gain both product and cost advantage over our closest competitors and emerge not only as the most innovative signal processing company, but also the lowest-cost provider of these products and services for the market.

Mindy Kohn - *Analog Devices Inc. - Director of IR*

Thanks very much, Jerry. We're now ready for the Q&A period and I'd ask everybody in the queue to please limit yourself to one primary question and then one follow-on question, and we'll do our best to give you another opportunity to ask more questions if there's time remaining. Operator, we're ready to open the line for questions, please.

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions). Our first question comes from Uche Orji from UBS. Your line is open.

Polo Tang - *UBS - Analyst*

Hi, this is [Polo] for Uche. Regarding the revenue guidance it appears better than most of your analog peers, just wondering if you saw any acceleration of orders in February rather than January and especially after Chinese New Year?

Jerry Fishman - *Analog Devices Inc. - President & CEO*

Well, as I mentioned in the comments, we were happy to see that the revenues sort of stabilized in January and early February at the running rates that we've been running, so at least they didn't appear to be declining any more, which I think is not surprising, in my opinion at least. Some of the revenue declines that we've seen are certainly the results of just lower demand, but there's another part of the revenue and order declines that we've seen that are just massive inventory reductions at our customers. I think eventually they've reached a point where the inventory turns are very high and their inventories have gotten down to levels where they might not be replenishing their inventories, which I don't think they are right now. But I think in many areas they've ceased trying to force their inventories down any further.

So as we [noted on] previous cycles in the past, that's not a surprising result after the kind of changes that we saw in the order rates over the last three months, that attempt to stabilize when the pressure to reduce inventories declines, basically. So having said that, it was encouraging to see at least the order rates began to stabilize in January and early February. I wouldn't read into that that we're off to the races. That's certainly not the way we're thinking about, not the way we're running the Company, but it certainly is nice to see the curve at least begin to flatten out than continue its sickening decline that you look at every single week.

Polo Tang - *UBS - Analyst*

Okay. And also if you could provide color on -- as to about your guidance, which end markets do you expect to be strong in the second quarter as opposed to the first quarter?

Jerry Fishman - *Analog Devices Inc. - President & CEO*

Well, our sense is -- and this is purely a guess -- is that the consumer-facing markets will continue to be very challenging. There hasn't been any uptick or any enthusiasm from consumer customers for the last couple of months and if you listen toward -- you hear from most of those customers and the layoffs they're experiencing -- and these are the larger, more-successful consumer companies -- I don't think there's any reason to be enthusiastic that there's going to be a sharp bounce back in the consumer markets or any products that actually touch a consumer.

I'd say that we're more enthusiastic about the infrastructure market and marginally even the industrial markets. Some of the declines that we saw in revenues were much greater than the declines in revenues of our customers, which indicated that they're -- they'd burned some inventory off. I think -- to answer your earlier question, maybe one of the reasons we're doing a little bit better than some of our competitors as far as these declines is that we have a larger percentage of our business in the industrial and infrastructure markets, which are -- even though they're down significantly are relatively less affected than the consumer market and you can tell off by the roll-off of our consumer sales and the roll-off of our sales in Japan. I think what's really going on, if you look across all the competitors, is most of the differences you see have to do with different market segment focus, moreso than any fundamental changes in share or any other things you might want to read into that.

Polo Tang - *UBS - Analyst*

Thank you.

Operator

Our next question comes from Steve Smigie with Raymond James. Your line is open.

Steve Smigie - *Raymond James - Analyst*

Great, thank you. Just following up a little bit on the revenue question, what do you think your industrial business would have looked like excluding the auto declines?

Jerry Fishman - *Analog Devices Inc. - President & CEO*

Excluding what?

Steve Smigie - *Raymond James - Analyst*

The automobile declines? Declines in the auto market?

Jerry Fishman - *Analog Devices Inc. - President & CEO*

It wasn't terribly different. The automotive part when we went into the quarter was only 7% or 8% of our total sales and so maybe it was 15% of our industrial sales. So it's not -- it was better, but it wasn't a lot better. (inaudible)

Dave Zinsner - *Analog Devices Inc. - CFO*

Yes, it was about 21%, in that range.

Jerry Fishman - *Analog Devices Inc. - President & CEO*

Yes, 21%?

Dave Zinsner - *Analog Devices Inc. - CFO*

Yes.

Steve Smigie - *Raymond James - Analyst*

Okay, thanks. And then --

Jerry Fishman - *Analog Devices Inc. - President & CEO*

Better, but sequential 20% numbers aren't so great either.

Steve Smigie - *Raymond James - Analyst*

Okay. You mentioned exposure to the Chinese telecom build out and obviously it's pretty significant exposure, can you talk a little about what sort of potential revenue you could get for that or how big that could potentially be for you guys?

Jerry Fishman - *Analog Devices Inc. - President & CEO*

Well, going into this downturn the basestation, or the wireless infrastructure market was about 15% of our sales roughly. It's broadly spread out between what's going on in China and also some of the larger European and even some of the US basestation manufacturers. The place where there seems to be the most momentum now is in China, not necessarily just Chinese companies, but by other companies that are serving the Chinese market, which includes many of the European companies, as well.

We are extremely strong in the analog part of the basestation market, where some how or other our analog products wander into virtually every basestation in the world and therefore every time you make a phone call someways or other there's one of our products stuck there. So I think that it's hard to quantify their numbers. They seem pretty optimistic about the next couple of quarters, but we'll have to just wait and see how all that materializes. In analog I don't think any one of these markets moves the needle a lot. Certainly the basestation market, if it materializes the way some of the customers are saying it's likely to materialize, that ough to be one -- at least one part of strength going forward. It's very hard to quantify the details of that.

Steve Smigie - *Raymond James - Analyst*

Okay, thank you very much.

Operator

Our next question comes from the Ramit Shah with Barclays Capital. Your line is open.

Ramit Shah - *Barclays Capital - Analyst*

Yes, thanks for taking my question. Jerry, I remember on the last call that -- in the month of November you guys had seen stabilization before things ultimately rolled over and you've got some similar firming again this quarter, do you think the odds are less that we'll see another let down in the April quarter much like January?

Jerry Fishman - *Analog Devices Inc. - President & CEO*

Well, that's (inaudible). If we could predict that it would be a lot easier to run the Company, but I think what really happened over the quarter -- or last quarter was the world just stopped for two or three weeks over Christmas. And usually it slows down and we account for that and we usually have a good November and a (inaudible) December and early January and I think the difference this year was that it just stopped over those weeks of Christmas. There were very few customers that actually were open and there were virtually no customers that wanted any inventory.

So I think that the rollover in Q1 was very seasonal and I think what really happened is, after that seasonal roll-off happened the world came back to what would -- the kind of rates that we saw in November and -- so, it's very hard to tell the answer to that. But Q1 is a very different quarter for us in terms of what happens every week and this year it was -- whatever effects you usually see were magnified by a tremendous amount because all our customers were just closed for two or three weeks. We had manufacturing lines, every car company shut down. We had consumer lines that were shut down every place, so that tends to magnify the effects of what typically happens in December for us.

Ramit Shah - *Barclays Capital - Analyst*

I got you. So you mentioned that backlog's 0.9 -- sorry, book-to-bill was 0.9 and just factoring in revenue down 10%, is it fair to assume that you're assuming turns will be flat this quarter?

Jerry Fishman - *Analog Devices Inc. - President & CEO*

Approximately.

Ramit Shah - *Barclays Capital - Analyst*

Okay, and then I just have one follow up. Did you guys disclose what power management was as a percentage of sales?

Jerry Fishman - *Analog Devices Inc. - President & CEO*

It's in the numbers we put on the website. I think it's about 5% of our sales. It suffered about the same fate as the rest of the analog product lines, roughly.

Dave Zinsner - *Analog Devices Inc. - CFO*

It's roughly 6%.

Jerry Fishman - *Analog Devices Inc. - President & CEO*

6%.

Ramit Shah - *Barclays Capital - Analyst*

Okay, the reason I bring it up is, it seems at some point you're going to come to a cross roads with this business. You guys have -- you guys talked about innovating in areas with the most pay back and just given your cash balance being at well north of $1 billion and then your desire to get, at the same time, margins up, it feels like at some point you're either going to have to take more aggressive steps with, say, making an acquisition or just get out of the business altogether. Just hoping you could give us your most updated thoughts on how you're thinking about power management.

Jerry Fishman - *Analog Devices Inc. - President & CEO*

Well, we're thinking about it that it's a market that is a very important addendum to what we're doing to round out our product portfolio. There are a lot of different ways to get at that. It's been a long slug, but you don't get into businesses very quickly in the analog business, which is why it's such a good business. So I guess we'll just have to wait and see how the whole thing develops. That's all I can say about it.

Ramit Shah - *Barclays Capital - Analyst*

Okay, thank you.

Operator

Our next question comes from the David Wu with Global Crown Capital. Your line is open.

David Wu - *Global Crown Capital - Analyst*

Yes, good afternoon. Jerry:, can you talk a little about -- I missed the -- did you talk about how much turns was a percentage of revenue last quarter and what the lead times really are at this point?

Jerry Fishman - *Analog Devices Inc. - President & CEO*

We didn't talk about it specifically, but when asked the question I think we said it was about 40% -- mid 40s and we're expecting to the mid point of the guidance about the same amount this quarter .

David Wu - *Global Crown Capital - Analyst*

I assume lead times are short like everybody else?

Jerry Fishman - *Analog Devices Inc. - President & CEO*

You bet.

David Wu - *Global Crown Capital - Analyst*

The other question I have honestly is, since nobody knows you've been very, very good in cutting operating expenses very -- ahead of plan, so to speak, if the revenue stays at the second quarter run rate for the rest of this year would we think about management would do any further cost reduction in operating expenses?

Jerry Fishman - *Analog Devices Inc. - President & CEO*

We haven't decided that yet is the best answer I can give you. Right now we have some long-term objectives of what we're trying to do, particularly in the infrastructure of the Company, to permanently reduce the infrastructure, which I think is relatively independent of the revenues. We just see opportunities to change the fundamental cost structure of the Company and we have teams around the Company working hard to figure out how to do that and we're going to continue that process, irrespective of what the short-term revenues are.

But I, I think all we can really say is what we're planning for next quarter and we've given some ideas on that, that it's going to be down another 3% or 4%, which in combination with last quarter is a pretty healthy dose. And we believed for a long time that the operating expenses of the Company were high relative to the revenues we were achieving, even when business was good. So we've been working on very important infrastructure things to fundamentally reduce the expense ratios of the Company and whether the revenues are four something or six something, we're going to keep working on that. Of course when they're four something we tend to work on it faster.

David Wu - *Global Crown Capital - Analyst*

Jerry, would that be in R&D or in SG&A where you can reduce infrastructure costs?

Jerry Fishman - *Analog Devices Inc. - President & CEO*

Well, I think it's heavily in SG&A, but we've also gotten the R&D levels down due to reducing investments in areas that we think are no good for us for the future. On the infrastructure side there's some opportunity on the R&D side, but there's, we believe, more opportunity on the SG&A side.

David Wu - *Global Crown Capital - Analyst*

Thank you very much.

Operator

Our next question comes from the Tristan Gerra with Rober Baird. Your line is open.

Tristan Gerra - *Robert W. Baird - Analyst*

Hi, good afternoon. If we exclude the inventory deleveraging, where do you think your utilization rates will be this quarter, and that's with the assumption that you have shipped in line with end demand and have no more [inventory there was internally]?

Jerry Fishman - *Analog Devices Inc. - President & CEO*

I'm not sure -- I didn't hear the first part of your question.

Tristan Gerra - *Robert W. Baird - Analyst*

So, your cutting production in a greater amount than end demand because of the increase of inventory days internally, if we adjust for that where do you think your utilization rates will be, approximately?

Jerry Fishman - *Analog Devices Inc. - President & CEO*

Well, maybe one way to -- I don't know the answer to that, but maybe one way to answer the question is that if we didn't get anymore sales and we had our manufacturing consolidations pretty well done, the utilization would go from about 40% to about 50% -- mid -- 50% or 55%, let's say 50% to be safe. So utilization just by virtue of the consolidations has the opportunity to go up about ten points if the revenues don't another -- heavy.

Tristan Gerra - *Robert W. Baird - Analyst*

Okay. And is it -- assuming that demand continues to stabilize is it safe to assume that this quarter will mark a trough in terms of gross margin, or is there a delayed impact of you cutting utilization rates further this quarter that could impact gross margin into the following quarter or the next quarter?

Jerry Fishman - *Analog Devices Inc. - President & CEO*

I think the way we are thinking about it -- these are very rough estimates -- but that we're trying to keep the inventory dollars flat here and -- or no worse than flat, let's say, and at the current levels of utilization in Q2, if the revenue stayed flat that would keep the inventory levels relatively flat and that's what we're attempting to do. Is that a reasonable --

Dave Zinsner - *Analog Devices Inc. - CFO*

That's reasonable, although I would say that the consolidation of Cambridge when it's completed, plus the impact of Limerick does -- and you mentioned this in the script -- does increase the gross margins by a few hundred basis points. So once those are complete, if revenue is flat and we just modulated you'd -- we benefited from the improvement in utilization, Just by the simple fact of consolidation our gross margins actually will be a couple hundred basis points better than where they are today.

Jerry Fishman - *Analog Devices Inc. - President & CEO*

Yes, these fab consolidations take quite a bit of time given we run such complex and multi levels of processing in our fabs, bud the dollar savings when these two consolidations are done are quite significant and long lasting. So that's why we -- we're fortunate we started on a couple of these early. The ones we started on later we're accelerating. These are important, fundamental manufacturing cost reductions at Analog.

Tristan Gerra - *Robert W. Baird - Analyst*

Okay, thank you.

Operator

Our next question comes from Craig Hettenbach from Goldman Sachs. Your line is open.

Craig Hettenbach - *Goldman Sachs - Analyst*

Yes, thank you. Jerry, you mentioned some companies operating in survival mode, any thoughts in terms of -- for ADI you're still solidly profitable, a lot of cash in the balance sheet, in terms of your level of investment whether it's to increase it in areas where you're strong or areas where you'd like to get stronger? Just like to get your thoughts there. Thanks.

Jerry Fishman - *Analog Devices Inc. - President & CEO*

Well, certainly the core franchise business that we're so strong in and that our share is so high in, is the part that's attracting the most investment. So what we're doing -- what we've always -- well, what we're doing now, let's say, under the revenues that we're getting right now is we're making sure that we do everything that we have to do to enhance our position in those businesses that were already strong, that are the real franchise of Analog Devices. So we fill those buckets first to the extent that we need to invest in to continue to build our position competitively in those businesses and then we say how much we got left and whatever we have left, we spend on other stuff. That's the way we're thinking about it.

Craig Hettenbach - *Goldman Sachs - Analyst*

Okay, and if I can follow up on that. As it relates to power management, is it fair to say that some of the assets that would be available out there are companies that have exposure to high volume, but often commoditize markets and as such you'd prefer to go organically in terms of having a more spread out exposure on the power management side?

Jerry Fishman - *Analog Devices Inc. - President & CEO*

Well, certainly we don't have much interest in making acquisitions or making a lot of investments in very highly commod -- the highly-commoditized places in power management. I think you and everybody else knows where they are. The interest we have in making investments in power management are in the more differentiated products and to try to generate a portfolio of products, which we've been working on now for two years, that replicates the portfolio and the customer base we have in converters and amplifiers. Even though some of those products might ultimately sell into high-volume markets like the camera business, the kind of power management we're doing now in cameras is very aligned to the rest of the signal processing stuff that we're -- we've been working on that we have a great product portfolio on. So I don't think we have much interest to be very specific in very highly commoditized power management products for high-volume business with very little competitive differentiation.

Craig Hettenbach - *Goldman Sachs - Analyst*

Great.

Jerry Fishman - *Analog Devices Inc. - President & CEO*

We don't have high tolerance for that insight and we don't have high tolerance for that on acquisitions.

Operator

Got it, thank you.

Jerry Fishman - *Analog Devices Inc. - President & CEO*

Okay.

Operator

Our next question comes from John Barton with Cowen. Your line is open.

John Barton - *Cowen and Company - Analyst*

Thank you. Jerry, you commented about OpEx being down in the April quarter 16% to 17% relative to the October quarter. Obviously some of those cuts are more temporary in nature, be it bonuses or what have you, some are more permanent in nature. Could you help me characterize, of the 16% and 17% what are permanent and what's temporary, and of the temporary portion of it at what point would you start to let those costs come back into the model, be it a revenue trend or however you want to look at it?

Jerry Fishman - *Analog Devices Inc. - President & CEO*

Well, that's a very complex question because the actions that we've taken are -- go across all those dimensions and even actions that we've taken in the fabs, for example, of consolidation you can view some of those as temporary if volumes get big enough and some of them as permanent. So it's very hard to come to those conclusions precisely, but what I can say is that what we're trying to do and what we will do is -- some of the actions that we're taking are temporary. We're not -- the bonuses are down to zero and those kind of things but there are many other actions in terms of the product line rationalizations we're going through, the reductions in SG&A infrastructure, and many other, what we used to think were discretionary expenses, which you might define as temporary reductions but they're permanent reductions because we're never going to let those items go back to those levels.

So it's very challenging to be precise about how many dollars and what percent was permanent and what's temporary, but the thing I can tell you is that there are some temporary things, but what we're fundamentally trying to do is get the infrastructure costs down in the Company and that's -- the actions we're taking are geared towards accomplishing that objective, as well as some temporary measures, which alleviate short-term pressure. But I can't really be precise about exactly the categorization of each of those expenses. It's in one or two of those categories. There's clearly costs in both of those areas. I think that the second part of your question about when do some of those that are temporary start coming back, I'd say at revenue levels that are significantly higher than we're running right now.

John Barton - *Cowen and Company - Analyst*

Okay.

Jerry Fishman - *Analog Devices Inc. - President & CEO*

That's the best I can qualify it.

John Barton - *Cowen and Company - Analyst*

Fair enough. Just as a follow up, I'm really curious, your perspective on customers' behavior beyond that of just cutting inventory. With the economic slow down, are you seeing any change in behavior in the design activity meaning are customers trying to redesign for costs more quickly? Are they trying to make old designs last longer, pulling out production life cycles, and however you look at that what's it mean to the designing capability of ADI as a company?

Jerry Fishman - *Analog Devices Inc. - President & CEO*

I think the be -- it's a wide spectrum of what you see with the customers, but I would say that companies -- and our customers are included in this -- tend to play out their character in recessions. So the companies that are very innovative, that are used to making their way out of new products and pioneering new technologies -- and those tend to be the companies that are the most financially stable, anyhow -- are beavering away and getting new products out, and they're working hard to try to be responsible and get their costs down and the like and as a result they're trying to work with fewer vendors and more preferred vendors.

I'd say one of the very interesting phenomena that we do see now is that the large customers -- in fact even the medium-sized customers are a lot less willing to work with vendors that they don't think are financially stable and the reason for that is obvious. A, that they're -- a lot of these products there's no other source for, at least the ones we do, and secondly, they think that companies, when they get under real pressure that are financially unstable do really stupid things or forced to. So I think what's really happening is -- I made the comment earlier -- I think in my opening remarks -- that we are financially stable and having been around a long time and the kind of vendor to innovative companies that they can depend on is a big deal now and we've seen opportunities that we may or may not have seen in the past that in the past might have gone to less stable, smaller companies than us.

But I think generically the innovative companies are continuing to innovate, as we are. They're being careful, they're trying to reuse technology more than they did before, so if you have a good position it's little easier at the margin to keep it. And I think those companies that are in desperate financial shape -- and there are some out there like that -- are -- they basically stopped doing anything at all. So we try to get our sales folks focused on companies with a future instead of those with the past. and that's always a challenge, but -- I don't know. I think companies like us or companies in the semiconductor industry and also customers tend to play out their characters during bad times to the extent they're able to.

John Barton - *Cowen and Company - Analyst*

Last question, if I could, maybe for Dave. You talked about keeping money safe and then seeing pressure in interest rates this quarter, how much more interest rate pressure can we expect based upon your position as you go into April and July?

Dave Zinsner - *Analog Devices Inc. - CFO*

Well, I think next quarter our interest income's going to probably run around $4 million. It was $8 million this quarter so that should give you a sense for -- the rates are falling and we're certainly trying to keep our investments in the highest quality they can possibly be in and give up the return on the cash. So at the moment, next quarter should be about $4 million and my guess is it'll track similar to that depending on how the rates move around.

Jerry Fishman - *Analog Devices Inc. - President & CEO*

That's getting down almost to zero.

Dave Zinsner - *Analog Devices Inc. - CFO*

Yes, it's almost to zero. (Laughter) Getting lower.

Jerry Fishman - *Analog Devices Inc. - President & CEO*

Yes, I think there is no doubt that we do favor no risk in the cash and for another point or two of yield you've got to take on a ton more risk that we don't understand well enough to take on. So we've given very clear direction to our treasury folks that whatever you do, don't lose money.

John Barton - *Cowen and Company - Analyst*

Thank you very much.

Jerry Fishman - *Analog Devices Inc. - President & CEO*

Yes.

Operator

Our next question comes from the Chris Danely with JPMorgan. Your line is open.

Chris Danely - *JPMorgan - Analyst*

Thanks for taking my questions, everyone. Can you just talk a little bit about OpEx trends after this quarter, assuming this quarter is the bottom and we're in this sort of flattish to slightly up mode for a while? And then also, in terms of the gross margins, can you also talk about when you expect to complete the fab consolidation and how the gross margins should trend after this quarter with the benefits thereafter?

Jerry Fishman - *Analog Devices Inc. - President & CEO*

I'll take the first part of it and I'll let Dave talk about the gross margins. First of all, just to remind everybody, the mid point of our guidance was down 10% next quarter, not flat, so I don't want any one to get confused that just because we've seen stabilization orders that we think we're going to have flat revenue, although that would certainly be a welcomed result if we achieve that. On the OpEx line, we're continuing to pressurize the OpEx costs in the Company in dimensions that we talked about earlier. One is on the investments we're making in R&D, and secondly on the infrastructure costs of the Company, which we're really pressurizing probably more than we ever have in the history of the Company. So I think we're going to continuously do that and that's relatively independent of what the revenues are, unless there was an startling increase in revenues coming up, which nobody expects in the coming quarters.

Dave Zinsner - *Analog Devices Inc. - CFO*

So on the gross margin side, as I talked about before, the Cambridge consolidation and the Limerick consolidation that will be worth a couple hundred basis points to us. About two-thirds of that comes from Cambridge and Wilmington and the other third comes from LImerick. Limerick is almost complete. It'll take some time for the old inventory to burn through and so we'd expect that benefit to start hitting us in the first quarter of next year. And then the Cambridge and Wilmington consolidation is expected to be completed by the end of this year and, again, the inventory will take some time to burn off. So some time in late 2010 we should start to see the benefit from that.

Chris Danely - *JPMorgan - Analyst*

And Dave, is that calendar or fiscal? Sorry.

Dave Zinsner - *Analog Devices Inc. - CFO*

That was fiscal.

Chris Danely - *JPMorgan - Analyst*

Okay. And then, Jerry, just on the OpEx, so after this quarter should -- are you guys going to try and hold OpEx flat to slightly up? Is there more room to -- I guess from a general perspective how we should be thinking about it?

Jerry Fishman - *Analog Devices Inc. - President & CEO*

Well, it's hard to predict, Chris. The -- right now we have a pretty good bead on what this quarter's going to be since it's based on actions we've already taken. We're going through a tremendous rethink of the infrastructure costs in the Company, which began about a month and a half ago and we're knee deep in it. So what I -- I think it's prudent for us to get to the point where we really know the answer to that, which will be during this quarter, and then we'll communicate our expectations going forward. But we're in a pretty deep think on the infrastructure costs of the Company. We think it's both an opportunity to do with this environment and an imperative and we wouldn't be very smart if we let that pass without moving on that. So that's what we're going to do and I think it'll take us another quarter or so for us to be able to delineate exactly what that means and it'll flow through into OpEx.

Chris Danely - *JPMorgan - Analyst*

Thanks. And as my follow up, Jerry, you talked about your inventory trends, when you talk to distributors or your end customers how do you think they feel about their inventory levels and when do you think that they will be comfortable with their inventory levels?

Jerry Fishman - *Analog Devices Inc. - President & CEO*

Again, it varies from customer to customer and market segment to market segment. And the areas where the inventory that customers have of our products doesn't rot and I think they're down at levels that are pretty low and they're sort of comfortable with them. In the areas that inventory does rot, which tend to be in some of the higher volume consumer markets, who knows? We have forecasts from the consum -- our consumer customers for this quarter that look okay, but we had forecasts from consumer customers last quarter that looked okay, so I think that one we're just going to have to wait and see how it plays out. But certainly a reasonable portion of the decline that all semiconductor companies have seen, I expect, is at fairly significant inventory reductions at customers. And for those that are in good shape I think that's going to come to an end and I think for those that are in bad shape, it may continue for a while.

Chris Danely - *JPMorgan - Analyst*

Great, thanks a lot.

Jerry Fishman - *Analog Devices Inc. - President & CEO*

One follow on to that, Chris, if you're still there.

Chris Danely - *JPMorgan - Analyst*

Yes.

Jerry Fishman - *Analog Devices Inc. - President & CEO*

The decrease in inventory and distribution we had last quarter was -- in some sense it wasn't all that surprising when we thought about it, but it was a pretty big number and that doesn't impact our revenues because we only report sell through. So what inventory happens in distribution, doesn't really change anything on the revenues, but it certainly does impact the amount of inventory that we have in Analog. So I I think the fact that the inventory was only up very slightly at ADI and at the same time that distributors basically torqued us for $35 million of inventory reduction in a couple of months is an indication that -- of what really went on with our production levels and our inventory management this quarter.

Chris Danely - *JPMorgan - Analyst*

Yes, I'm just trying to figure out when we're going to hit the bottom?

Jerry Fishman - *Analog Devices Inc. - President & CEO*

Well, I think we'll hit the bottom after we -- we'll know we hit the bottom after we hit it.

Chris Danely - *JPMorgan - Analyst*

Exactly.

Jerry Fishman - *Analog Devices Inc. - President & CEO*

I don't mean to be facetious, but you never know and all we can do is speculate. We have conversations with our distributors and our customers and they seem to indicate the inventory levels are low, but we're still generating a large, large part of our orders every week in turns business. So I don't think anybody's out there willing to commit to a lot of inventory for the future right now. So we look at every week, which you know is a trend that began about three months ago and I think customers, distributors are just living hand to mouth. When a distributor gets an order they can ship they give us an order,. and until they do, they don't. That's just the way it is.

Chris Danely - *JPMorgan - Analyst*

Okay, thanks a lot.

Jerry Fishman - *Analog Devices Inc. - President & CEO*

Okay.

Operator

And our next question comes from Doug Freedman from Broadpoint. Your line is open.

Doug Freedman - *Broadpoint - Analyst*

Great, thanks, guys, for taking my questions. A quick one for Dave Zinsner, if you wouldn't mind. You've been with the Company a little bit over a month now, can you give us an idea of what you found most surprising in that -- your first introduction?

Dave Zinsner - *Analog Devices Inc. - CFO*

You've got to be kidding. (Laughter) Let's see.

Jerry Fishman - *Analog Devices Inc. - President & CEO*

Go for it, Dave.

Dave Zinsner - *Analog Devices Inc. - CFO*

Really I had a lot of due diligence that I did before that so I came in kind of understanding what I was getting into. Having said that, actually there were a couple questions about power management and whether we should give up. That was actually one area that really surprised me. I came from a company where 60% of their revenue came from power management and I sat in a room a couple of times with the guys here running power management and I was actually very impressed. And I think investors get impatient about the growth in revenue when it comes from a very small group base, but we're generally focused on general purpose power management,, That takes a long time. It takes 18, 24 months a cycle -- a design cycle to get to revenue, Once you get it it can last for 12 years and it's very, very good margin business. So I think that that is probably the most surprising area, how much potential, I think we have in the power management space at ADI.

Doug Freedman - *Broadpoint - Analyst*

Great, thank you.

Jerry Fishman - *Analog Devices Inc. - President & CEO*

Okay, Dave, you get to keep your job. (Laughter)

Doug Freedman - *Broadpoint - Analyst*

Can you give us more color possibly in the communications space, One of the highlights is there is actually a build going on over in Asia in infrastructure, how much of an impact is that having, if you can help us get a handle on that? And also, are you expecting any impact from the LTE and what the timing is? Any color you guys can offer in that market space would be helpful.

Jerry Fishman - *Analog Devices Inc. - President & CEO*

LTE stands for what?

Doug Freedman - *Broadpoint - Analyst*

It's the next generation for GSM.

Jerry Fishman - *Analog Devices Inc. - President & CEO*

Well, I think the infrastructure market -- and I think I answered in the previous question, going into the cycle was about 15% of our sales. A reasonable portion of that's in China but it's not the majority of it. We're -- the builds are beginning, we're getting orders from the large infrastructure companies that are not only in the China, but who service the Chinese market, but i t's not going to move the needle very much because it's only 15% of our sales. So I think no matter what the standard is, be it in China or be it the next generation of GSM or whatever that turns out to be, I think we're going to do very well in the basestation business, as we always have, but I don't think it's going to move the needle. But I will tell you that when it does do well, those products -- we have the largest customers, we make good profits on those products, we have good relationships with those customers. They really want to deal with fewer vendors that can solve a broader problem for them and I think we'll do well. But it's very hard to quantify how that's going to move the needle at ADI.

Doug Freedman - *Broadpoint - Analyst*

All right, so we shouldn't think of that as a market segment that's going to grow as a percentage of sales much outside of a small --?

Jerry Fishman - *Analog Devices Inc. - President & CEO*

Oh, I think it'll grow as a percentage of sales. It has been growing, by the way, as a percentage of sales in a stable market. It's going to probably grow more as a percentage of sales when the consumer stuff and some of the other stuff is declining or at least not growing. So I think that's going to be a higher percentage of our business in short term than it has been.

Doug Freedman - *Broadpoint - Analyst*

Can you spend a little bit of time and talk about possibly the behavior of some of your competition and if there's anything that's going on right now that you find surprising or something that investors should be paying attention to?

Jerry Fishman - *Analog Devices Inc. - President & CEO*

Well, I think -- as I mentioned in response to a different question I think most competitors play their hands and they reflect who they are in up markets and they reflect who they are in down markets, so those that tend to sell products on value tend to keep their prices up, but those that sell their products based on price tend to get very price aggressive. As we've looked through the margins that we're achieving we don't see a lot of evidence of any extraordinary price pressure in the products we have because it doesn't do any good because there's very few direct equivalents to our products, at least our most successful products in the marketplace.

I think there's a lot of companies, a lot of competitors, some direct and some indirect that are re-evaluating their strategy and trying to figure out, as we started about 18 months ago, of where are the areas where they want to make investments and what are the areas that no matter how much you investment doesn't turn out to be a very good business. I think virtually every company out there that we compete with is beginning to go through that process of the R&D's getting scarce, the returns are getting harder to come by, where do you want to put your money and how do you want to sell your products and how do you want to manufacturer them? So I don't think anybody out is there is -- that we know, any of the good competitors, are sitting around just saying "let's way for the day to get better." But typically, every competitor plays out who they are in these cycles.

Doug Freedman - *Broadpoint - Analyst*

And then my last question, if you wouldn't mind, is there an opportunity coming up, do you believe, to repatriate some of the $1 billion I believe you stated as overseas cash?

Jerry Fishman - *Analog Devices Inc. - President & CEO*

Well, there's always the hope, but who knows? We'll know about it when we read it in the newspapers, it's just very hard to predict. We think there's a very compelling reason for our government to do that. It'll bring cash into the United States, but most companies are not going to repatriate the cash unless they really need to and pay taxes on it right now. So we think there's a great (inaudible) for doing it, but we don't make the rules so we'll just have to wait and see what happens.

Doug Freedman - *Broadpoint - Analyst*

All right, great, thank you.

Jerry Fishman - *Analog Devices Inc. - President & CEO*

But if the rules do change, we're ready.

Doug Freedman - *Broadpoint - Analyst*

Okay, so you would seize the opportunity, Great, thank you.

Jerry Fishman - *Analog Devices Inc. - President & CEO*

Well, we have last time it happened and I expect we would again.

Operator

And our next question comes from the line of John Dryden with Charter Equity Research. Your line is open.

John Dryden - *Charter Equity Research - Analyst*

Welcome, Dave. Converters were in line to corporate decline in sales but amps outperformed all our other products by 500 basis points or more, is there any particular explanation with respect to market mix that resulted in the out performance of amplifiers?

Jerry Fishman - *Analog Devices Inc. - President & CEO*

No, I think these are just quarterly variations that -- as we've looked at it, they're not really definitive. In the consumer market they tend to be a little bit more converter intensive in the audio-video stuff so that might bang it around a little bit more, but I'd say there's no definable rationale to either be excited or worry about.

John Dryden - *Charter Equity Research - Analyst*

Okay. And then can you break out the 470 basis point decline in GM by lower utilization versus the inventory reserve. Were the reserves end of life products, all DSP or some other reason, because your HPA products are typically seven years or more in life? And for 2Q is the -- the Limerick applicability was outlined in the 10-Q to be about $25 million. Is that still in line with your previous results in 10-Q as far as savings from consolidation?

Jerry Fishman - *Analog Devices Inc. - President & CEO*

Dave, (Laughter) good luck with that.

Dave Zinsner - *Analog Devices Inc. - CFO*

Well, to answer your second question, $25 million is still the expected savings for the Limerick consolidation. I would say that most of the reduction in gross margin had to do with activity rates. There was, as you mentioned, a little bit more reserves, but I would say that was a minor impact to the gross margin decline. Most of it, again, was activity-based. We did see an offsetting benefit from mix, since consumer and computing were down more than the corporate average amplifiers and data converters -- or rather industrial and com infrastructure were down less than corporate average we benefited a bit on the mix side.

John Dryden - *Charter Equity Research - Analyst*

Thanks for taking my questions.

Operator

And our next question comes from Sumit Dhanda from Banc of America and Merrill Lynch. Your line is open.

Sumit Dhanda - *Banc of America/Merrill Lynch - Analyst*

Yes, hi, most of my questions have been answered. Just to go back on the expectations on the cost front, Jerry, perhaps just another way of asking it. On the last conference call you suggested that the savings would be $25 million a quarter over Q1 and you'd bring do. Y, you're tracking about a $40 million type number and you said half of those would come back --half of those prior savings would come back. Is it fair to apply the same kind of expectation to this $40 million decline that we're seeing now [instead] of the $25 million?

Jerry Fishman - *Analog Devices Inc. - President & CEO*

Well, I think it's very hard to be definitive in terms of this, When we estimated it that was sort of a rough estimate of a lot of different moving parts. I'd say that we're -- there's both categories in these numbers and some -- of course we'll come back, we'll give some raises out eventually, the bonus will start to pay a little more, but I think what we're really trying to emphasize right now is permanent reductions to our infrastructure costs and those would be areas like manufacturing infrastructure, which I think we talked about quite a bit, and also in the SG&A area, as well as keeping raising the bar on the R&D investments we're making going forward. So it's very -- we don't have an analysis that we could go through with you of the percentage and the amount of dollars that are permanent and temporary, but I think all I can do is talk to you about our strategic intent of that, which is some of these things we do, which aren't temporary, just to try to preserve a modicum of profitability and reach stability here.

The things we're -- we spend most of our time thinking about and most of our time working on, are the things that will permanently reduce our costs, because that's a program we started on long before this happened, which has been accelerated by this decline, not initiated by it. So it doesn't answer your question definitively, but certainly what you should take out of that is that we're working hard on the infrastructure costs of Company and that's going to -- and that's why in the -- almost the very first thing I said this afternoon, our goal is to get higher margins on the same revenue level and better margins at this revenue level.

So that's -- the only way you do that is by fundamentally improving your gross margins and fundamentally getting your cost out. Or else, when you get back to the same revenue level you've got the same margins, which were not bad, but nothing to write home about either competitively. So I think the fact that we're making this statement that says at the same revenue levels we think we can make more money I think is a statement that defines our intent of permanent versus temporary cost reduction.

Sumit Dhanda - *Banc of America/Merrill Lynch - Analyst*

Okay. Then just as a follow up, just to be clear, some of the infrastructure-related savings as it relates to the SG&A line for your comments are yet to show up and then would you care to take a stab at what you think a long-term margin model might look like, let's say at a $600 million or $650 million type revenue run rate, whenever that might occur again?

Jerry Fishman - *Analog Devices Inc. - President & CEO*

Right now we don't have it definitive enough that I would comment on it and I think as -- you know, as things start to stabilize and we start to get our game back here a little bit we'll put out some new models for you at that time, but I think right now we're just focused on trying to get a lot of stuff done and I think we'd be a little premature to comment on that.

Sumit Dhanda - *Banc of America/Merrill Lynch - Analyst*

And then the savings to SG&A associated with corporate infrastructure cost reductions still yet to show up in terms of -- although you said the details are forthcoming at --?

Jerry Fishman - *Analog Devices Inc. - President & CEO*

Well, a little bit has shown up and there's more to come.

Sumit Dhanda - *Banc of America/Merrill Lynch - Analyst*

All right, great. Thank you so much.

Mindy Kohn - *Analog Devices Inc. - Director of IR*

Okay. Well I wanted to thank everybody for joining us today and we're looking forward to taking with you again during our Q2 call, which we've now scheduled for Tuesday, May 19th. Thanks very much.

Operator

This concludes today's Analog Devices conference call. You may now disconnect your lines.
