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Maria Tagliaferro – Director of Global Communications, Analog Devices, Inc.
Jerald G. Fishman – President, Chief Executive Officer & Director
David A. Zinsner – Chief Financial Officer & Vice President
Vincent T. Roche – VP-Global Sales & Strategic Market Segments Group

Other Participants

Doug Freedman – Analyst, RBC Capital Markets Equity Research
Deepon Nag – Analyst, Macquarie Capital (USA), Inc.
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C. J. Muse – Analyst, Barclays Capital, Inc.
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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon. My name is Natalie and I will be your conference facilitator. At this time, I would like to welcome everyone to the Analog Devices Second Quarter Fiscal Year 2012 Earnings Conference Call. [Operator Instructions] Thank you. Miss Tagliaferro, you may begin.

Maria Tagliaferro, Director of Global Communications, Analog Devices, Inc.

Thank you, Natalie, and good afternoon, everyone. This is Maria Tagliaferro, Director of Communications for Analog Devices and we appreciate you joining us for today's call. If you haven't yet seen our second quarter fiscal year 2012 press release or Form 10-Q, you may access both by visiting our website at investor.analog.com. You may access the live webcast of this conference call from the same page. A recording of this conference call will be available today within about two hours of this call's completion and will remain available via telephone playback for one week. The webcast will also be archived on the IR website.

In addition, we have updated the schedules on our IR website which include the historical quarterly and annual summary P&Ls for continuing operations as well as historical quarterly and annual information for revenue from continuing operations by both end market and product type.

Participating with me in today's call are Jerry Fishman, President and CEO; Dave Zinsner, Vice President of Finance and CFO; and Vincent Roche, Vice President of Sales and Strategic Market Segments. During the first part of the call, Jerry and Dave will present our second quarter 2012 results as well as our short-term outlook. The remainder of the time will be devoted to answering questions from our analyst participants.

I'd ask you to please note that the information we are about to discuss includes forward-looking statements intended to qualify for the Safe Harbor from liability established by the Private Securities Litigation Act Reform Act of 1995. These forward-looking statements include risks and uncertainties and our actual results could differ materially from those we will be discussing. Factors that could contribute to such differences include but are not limited to those described in our SEC filings including our most recent quarterly report on Form 10-Q filed earlier today. The forward-looking information that is provided on this call represents our outlook as of today and we do not undertake any obligation to up update the forward-looking statements made by us. Subsequent events and developments may cause our outlook to change. Therefore, this conference call will include time-sensitive information that may be accurate only as of the date of this live broadcast, which is May 22, 2012.

With that I will turn the call over to ADI's CEO, Jerry Fishman, for opening remarks.

Jerald G. Fishman, President, Chief Executive Officer & Director

Well thanks, Maria, and good afternoon to everybody on the call. Our revenues in our second quarter totaled approximately $675 million, which was up slightly more than 4% sequentially but down about 15% compared to the year-ago quarter. You might remember the year-ago quarter, when ADI revenue peaked as customers built inventory to reduce the risk of supply disruptions that were widely feared after the March 2011 earthquake and tsunami.

The industrial end markets, which are typically seasonally strong for ADI in second quarter turned even better performance than we had planned and grew about 12% sequentially. All of the major application areas within industrial grew sequentially and it was led by over 20% sequential growth in both instrumentation and in energy. Healthcare and industrial automation, which includes process control as well as defense, aerospace and security also grew sequentially in the second quarter.

In general, indications in the industrial market are that customers have stopped depleting inventory and our current orders more closely match consumption levels, certainly much more closely than had been the case over the last few quarters. In the industrial market, ADI is well recognized as the best brand amongst a wide range of industrial applications and many of these applications we now believe have the potential for above market growth rates in the future.

Revenues also increased sequentially from communications infrastructure customers as both wired and wireless applications grew about 3% sequentially. Communications order rates began very slowly in the early parts of Q2, but improved significantly toward the end of the quarter. For the past few quarters, operators have worked to increase capacity at minimal cost by implementing software upgrades rather than hardware upgrades.

But today network networks in many regions of the world are very much overloaded and operators find it difficult to respond to significantly higher bandwidth requirements from applications such as streaming video by using existing equipment. As a result of new equipment upgrade cycles, ADI's leading technology portfolio and very strong customer relationships with the largest market shareholders in the infrastructure market, we expect our sales into the communications applications to grow throughout the second half of our fiscal year and also into 2013.

Automotive revenues were down very slightly in the second quarter but increased 10% year over year as a result of strong worldwide vehicle unit growth, increasing electronic content and increasing ADI content in cars. ADI as you know is very well positioned in the major systems in a wide range of automobiles and we expect the automotive market to continue to offer very strong growth prospects for ADI going forward as it has over the past three to five years.

Revenues from consumer customers declined 8% sequentially, in line with the seasonably weak second quarter time period for consumer products. However, even in the consumer market, orders from consumer customers picked up late in the second quarter, and we now expect our consumer business will grow sequentially in the third quarter and again in the fourth quarter as a result of better underlying demand, and I think very importantly a very strong ADI design-in activity at the top consumer brands.

On a regional basis, all regions except North America experienced a sequential increase in both revenue and also in end customer bookings. On a worldwide basis, end customer bookings increased 8% to 10% sequentially and the book-to-bill for the quarter was above 1.

Our best sense at this point is that the order expansion that we are experiencing is the result of a combination of the end of customer destocking, an incrementally better outlook at many of our customers and also our distributors, and also what we believe is the beginning of what will be a very strong new product cycle at ADI.

In aggregate, ADI's second quarter performance was strong on virtually every measure. We met or exceeded our plan for growth and profits for the quarter and we are continuing to deliver exceptional cash flow.

So Dave will now take you through some of the details of our financial results and after Dave's done, I'll come back and talk a little bit about the outlook going forward.

David A. Zinsner, Chief Financial Officer & Vice President

Thanks, Jerry. As Jerry mentioned, second quarter revenue increased 4.2% sequentially and declined 14.6% year over year to $675.1 million. Our gross margin was 65.2% in the second quarter. This was up 200 basis points from the 63.2% we reported in the first quarter, driven by a favorable mix of high margin industrial and communications infrastructure products and increased factory utilizations. Second quarter gross margins represented a drop-through of approximately 115% on the incremental sales.

Lead times for our direct OEM customers remained similar to last quarter and are in good control with virtually all of our shipments to OEMs occurring within four weeks. With these very short lead times from ADI, we are experiencing a very high proportion of orders for delivery in the quarter as our customers understand that our products are readily available rather than customers building long-term backlog to ensure supply.

Operating expenses for the second quarter were $227.5 million compared to about $226 million in the prior quarter. The slight dollar increase was primarily due to an increase in variable compensation and to a lesser degree annual salary increases that went into effect in April. Operating expenses declined sequentially as a percent of revenue by 120 basis points and head count in the second quarter remained essentially flat to the previous quarter's levels.

Operating profits before tax for the second quarter were $212.9 million or 31.5% of sales. This was 320 basis points higher than the prior quarter's operating profits of 28.3% of sales. Operating profits increased as a result of the higher revenue and increased factory utilization in the second quarter.

Other expense was $1.5 million in the second quarter compared to $3.3 million in the first quarter. Our ongoing run rate for net interest expense should be approximately $3 million.

Our tax rate for the second quarter was 23%, in line with the prior quarter's 22.6% but higher than our prior expectations. The higher rate was primarily due to a shift in income to higher tax jurisdictions. We expect our effective tax rate in the third and fourth quarter to be approximately 22.5%.

Diluted earnings per share of $0.53 in the second quarter was at the high end of our guidance as a result of our strong growth from these high margin products. Cash flow in the second quarter continued to be strong. We generated 33.5% of our revenue, or $226 million in operating cash flow. Capital expenditures were $30 million, resulting in free cash flow of $196 million, or 29% of revenue for the quarter.

Our accounts receivable balance increased from the prior quarter by $28 million due to higher sales. However, our days sales outstanding decreased to 45 days from the prior quarter's 46 days. We continued to carefully manage inventory both at ADI and our distribution partners to keep our total inventory well positioned to respond quickly to customers. In the second quarter, inventory at ADI increased by a modest 2% compared to the prior quarter. On a days of inventory basis, ADI inventory decreased to 118 days from 122 days in the prior quarter. While a bit above our inventory model of 100 to 110 days, we believe this makes sense given inventory in the channel is still low compared to historical levels and there is a wide range of possible demand levels for the next few quarters. We remain committed to maintaining very short lead times to avoid double ordering and to provide best-in-class service levels to our customers.

During the second quarter, we repurchased $44 million of our stock. We also distributed approximately $89 million or 55% of net income in dividends to our stockholders. Our cash and short-term investment balance at the end of the second quarter was approximately $3.8 billion of which approximately $1.1 billion is available domestically. At the end of the second quarter we had approximately $863 million in debt outstanding.

On May 21, our Board of Directors declared a cash dividend of $0.30 per outstanding share of common stock which will be paid on June 12, 2012, to all shareholders of record at the close of business on June 1. At the current stock prices, this dividend represents an annual yield of approximately 3.3%.

In summary, second quarter delivered solid results. Our operating model turned a 4% sequential increase in revenue into a 15% sequential increase in diluted EPS. At gross margins of 65.2% and operating margins of 31.5%, we still have leverage ahead as sales increase, factory utilization improves and we continue to prudently manage the growth in operating expenses, well below our sales growth rates.

And now I'll turn the call back over to Jerry to discuss ADI's outlook for next quarter.

Jerald G. Fishman, President, Chief Executive Officer & Director

Thanks, Dave. For the third quarter of 2012, we're planning for our revenues to grow sequentially in the range of 1% to 4%. We're planning for the industrial market to grow sequentially again in Q3, although certainly at a slower rate compared to the very significant sequential rise in Q2 as we enter the seasonally weaker second half of the year for industrial products.

As I mentioned earlier, orders from communications infrastructure customers picked up momentum in the latter part of the second quarter, and as a result our third quarter plan for communications infrastructure is for sales also to grow sequentially. We expect automotive revenues to be about flat sequentially in Q3 and revenues from consumer applications to grow sequentially as a result of seasonality and also what we expect to be a very strong new product cycle to our consumer products.

We are planning for gross margins to increase approximately 50 basis points from the 65.2% we achieved in Q2, which if we achieve the mid-point of our revenue guidance, would generate more than 80% in drop-through on incremental sales. We anticipate operating expenses of approximately $231 million, a slight increase primarily as a result of a full quarter with the annual salary increases that went into effect in April and variable compensation increasing as margins continue to improve. Based on those estimates and excluding any one-time items, diluted earnings are planned to be in the range of $0.54 to $0.58 in the third quarter.

So in closing, while the data we have points to 3Q being another solid quarter for ADI, we continue to be mindful of the global macro environment that we're operating in. We're very focused on providing our customers with the very best technical support and the most responsive supply chain. Internally of course we're focusing on the things that we can control, bringing breakthrough products to the market, looking for continuing efficiency gains wherever we spend money and wherever we apply resource and engaging every employee at Analog in the fight to get higher sales and higher margins.

Maria Tagliaferro, Director of Global Communications, Analog Devices, Inc.

Thank you. Thank you, Jerry. Thank you, Dave. During today's Q&A period, please limit yourself to one primary question and no more than one follow-on. We'll give you an opportunity to ask additional questions if we have time remaining. Operator, we're now ready for questions from our analyst participants.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] And the first question comes from the line of Doug Freedman from RBC Capital Markets.

<Q – Doug Freedman – RBC Capital Markets Equity Research>: Great, thanks for taking my question guys, and congratulations on the strong operating results. If I could, I guess I'll start with just the revenue line. It does appear to be a little light of where we might think business might be if we were in a normal semiconductor, if there is such a thing, recovery cycle. Can you comment on how you think the macro environment is impacting your customer base and maybe if you guys have taken any actions of your own as a result of the nervousness out in the marketplace?

<A – Jerald Fishman – Analog Devices, Inc.>: Well I think, Doug, the only thing that we can do is be suitably cautious given all the sort of macroeconomic issues out there. I think at the margin, that makes our customers worry a little bit more than they would if everything was going well in every geography. But I still sense that most of our customers are looking out there and saying things are pretty good and that they're expecting to get growth.

Typically, our third quarter seasonality is all over the map. There are some third quarters we actually grow 5% or 6% or 7% and other ones we contract 4% to 6%, other ones are right in the middle. In fact, if you look at the average for the last three years, each one of which was a unique year, the average of those last three years was about 2% in third quarter.

So I think what we're trying to do is listen to all the positive vibes we're getting from the customers and make sure we have capacity in response to that, but yet internally manage the company to try to keep as much flexibility as we can in case the macroeconomic situation gets worse. Now Vince, you have some other – you've been out there talking to particularly the industrial customers.

<A – Vincent Roche – Analog Devices, Inc.>: Yes. If you look at the geographic complex on this thing, I would say from a number of conversations I've had with our large distributors as well as our customers, particularly in the industrial sector, I'd say there was a general sense that Europe still has to work through the crisis. People are being very, very careful in terms of laying out cash, particularly for CapEx oriented equipment. I think inventories are going to be very, very lean, but I think we're at a point now as well where the inventories that our customers have got are very healthy and in line with consumption rates I think the sense as well is that America is pretty stable. Everybody's watching China. I've heard mixed reports on China. Some see it as very, very strong for the next couple of quarters, some not so strong and Japan also seems to be pretty stable.

<A – Jerald Fishman – Analog Devices, Inc.>: So I think really the summary comment is that if we just listen to the feedback we're getting from our customers, we might have put out a more optimistic plan for next quarter, but I think we have to be cautious when you listen to what's going on macro economically, and that's what I think our guidance reflects.

<Q – Doug Freedman – RBC Capital Markets Equity Research>: Great. Thank you for that color. If I could for my follow-up, just again on a comment you made, Jerry, regarding a strong product cycle in the consumer segment that you're expecting. Can you just remind us, does that consumer segment include your handsets and would that be if you could offer some more color there, that would be helpful.

<A – Jerald Fishman – Analog Devices, Inc.>: Well I think as you know when we've talked about previously, we've really narrowed down our focus in the consumer business to those areas that we really think we can make not only a significant technology contribution but one that will last more than a few months or a few calendar quarters. And I'd say where our product offering is particularly strong right now is in the portables side and that encompasses many different types of portable formats and particularly in the audio and image processing dimensions of that.

So we have good products. It represents a lot of mainstream analog technology and based on the feedback we're getting from some of the top consumer companies, the design-in rate of those products seem pretty good and if we believe their forecasts for the second half, that should raise our consumer business in the next couple of quarters. But it's mostly focused on the portable area, I would say.

<A – Maria Tagliaferro – Analog Devices, Inc.>: Okay, next question operator.

Operator: Your next question comes from the line of Shawn Webster from Macquarie.

<Q – Deepon Nag – Macquarie Capital (USA), Inc.>: Hi, this is Deepon for Shawn. Thanks for taking the question. Could you actually talk about the current quarter and where you are seeing orders from an end market and geographic perspective? Obviously order rates pick up. I know there's been talk about some order rates in May being very strong for some of your competitors.

<A – Vincent Roche – Analog Devices, Inc.>: Yes, I'd say over the last couple of months what we've seen is stabilization on the industrial side, and a pickup in the communications infrastructure orders in particular. Automotive also has been a great growth driver for the company over the last few years and it continues to be strong and my expectation is that in the second half and 3Q that based on the order streams we're seeing, that market will behave pretty well for us as well.

<Q – Deepon Nag – Macquarie Capital (USA), Inc.>: Okay thanks for that. And when you're thinking about the out quarter, could you talk about where utilization rates are going to go and how much benefit we should see from utilization rates and how much we should see from mix? And also if you could give the utilization rates for the past quarter, that would be very helpful as well. Thank you.

<A – David Zinsner – Analog Devices, Inc.>: Utilization in the second quarter was about 70%. We're expecting utilization to be in that range for the third quarter. It did pick up from, I think it was 67%-ish the prior quarter. So we've added probably 50 basis points or so. The mix certainly contributed as well. What was your other question related to that?

<Q – Deepon Nag – Macquarie Capital (USA), Inc.>: So just going forward, how do we anticipate mix impacting gross margins?

<A – David Zinsner – Analog Devices, Inc.>: Well, utilization is going to be flat, so I don't think that's going to benefit. At the moment, we're predicting that mix will be relatively similar to what it was in the second quarter, so I doubt that that will have much benefit. Really the improvement we'll get in the gross margin sequentially is going to be more just from the higher revenue level.

<Q – Deepon Nag – Macquarie Capital (USA), Inc.>: Great. Thank you.

<A – Maria Tagliaferro – Analog Devices, Inc.>: Okay operator, can we get the next caller, please?

Operator: Your next question comes from the line of Ambrish Srivastava from BMO Capital.

<Q – Emily Scudder – BMO Capital Markets (United States)>: Hi, this is Emily calling in for Ambrish. Thank you for taking my call. Can you discuss what regions are driving the growth in your communications infrastructure end market segment and what regions you are expecting to be the strongest contributors to ADI in the second half of the fiscal year and fiscal 2013?

<A – Vincent Roche – Analog Devices, Inc.>: Yes. I mean, all regions in the second quarter registered growth. America was relatively flat, but all regions grew. My expectation is that given what we're seeing of the end market side that there won't be much change in terms of the regional mix in at least the third quarter.

<A – Jerald Fishman – Analog Devices, Inc.>: I think also her question was more related to communications.

<A – Vincent Roche – Analog Devices, Inc.>: Yes. On the communications side, well, as you know our business in the communications sector is very, very global. We supply products to all the sectors of equipment such as GSMs, all the 3G standards, WCDMA, TD-SCDMA, LTE on the 4G side. And I think particularly in America, you're going to see some significant capital deployments in the third and fourth quarter and also China. So I think Europe is probably on the communications infrastructure side going to be somewhat tepid. That's my sense based on what I hear from customers and what the carriers seem to be saying. And Japan has been quite good both on the wire and wireless side over the last quarter or two and my expectation is that remains steady.

<Q – Emily Scudder – BMO Capital Markets (United States)>: Okay. And then can you comment on what your expectations are as far as distributor inventory as we exit this quarter and how that might vary by the different regions?

<A – David Zinsner – Analog Devices, Inc.>: Days of inventory right now at distribution is around 7.5 weeks. That's a little bit below the target, which I think we generally think of as 8 weeks. I would guess over time that will migrate its way up to 8 weeks, but we don't have any insight as to when that will happen. And I think that it's pretty consistent across the geographies.

<A – Vincent Roche – Analog Devices, Inc.>: Yes. I think given the strength in supply as well, I think distributors are not incentivized or there's any particular reason to hoard inventory at this point in time, so.

<A – Jerald Fishman – Analog Devices, Inc.>: And we're not incentivized to give it to them.

<A – Vincent Roche – Analog Devices, Inc.>: Right.

<A – Maria Tagliaferro – Analog Devices, Inc.>: Right, exactly, excellent. Okay next question, please, operator.

Operator: Next question comes from the line of C. J. Muse from Barclays.

<Q – C. J. Muse – Barclays Capital, Inc.>: Yes, good afternoon. Thank you for taking my question. I guess first question, Jerry, you talk about conservatism or cautious given the macro picture. But at the same time, it sounds like your visibility particularly on the comm and consumer side is a little bit better. So I guess what I'm trying to ask and ask it directly is, if we didn't have this kind of macro uncertainty, what kind of top-line growth do you think we could see in Q2?

<A – Jerald Fishman – Analog Devices, Inc.>: I mean, that's very hard to predict. I'd say just qualitatively, the only thing I can say is that if we had more macro certainty and we were sure that the economy was going to be no worse than neutral, I think our expectations for revenues would be higher. How much and what that number is, I'd just be guessing and I don't think that serves either of us. But certainly, the macro climate is, I mean, you have to be sobered by it. You can't see what's going on or read the newspapers every day and listen to all the commentary and not at least be a little concerned about how that might impact our business. So I think that's what our guidance is reflecting.

<Q – C. J. Muse – Barclays Capital, Inc.>: I guess have you seen a pullback in terms of customers' asks and it's flowing into your order book? Or is this more of a more cautionary stance just heading into what you may think you're going to see?

<A – Jerald Fishman – Analog Devices, Inc.>: I think it's more the latter than the former.

<Q – C. J. Muse – Barclays Capital, Inc.>: Okay, great. If I could just ask one last question, Dave, what should we be thinking about for the tax rate in fiscal 2013?

<A – David Zinsner – Analog Devices, Inc.>: I would plan it to be somewhere in the 22% range.

<Q – C. J. Muse – Barclays Capital, Inc.>: Thank you.

Operator: Next question comes from the line of Chris Danely from JPMorgan.

<Q – Chris Danely – JPMorgan Securities LLC>: Okay, thanks guys. So if we took all the macro uncertainty we all read about, what do you think your best guess would be for whatever is close to a normal seasonal quarter this quarter and then what would be a normal seasonal quarter for next quarter in terms of revenue growth?

<A – Jerald Fishman – Analog Devices, Inc.>: I think the best way I can answer that is that we haven't had a seasonally normal quarter in three years.

<A – David Zinsner – Analog Devices, Inc.>: Four years.

<A – Jerald Fishman – Analog Devices, Inc.>: Four years actually, Dave reminds me. So I think the trends in each of the market segments is much more dominant than the seasonality that we see. In the earlier days when our business was mostly military, industrial and so on, it was pretty easy to just figure that out. But I think with consumer business, the communications business, automotive businesses, those are not businesses that respond to typical seasonality as compared to what's going on in those particular market segments that are more on a secular way of thinking about it than a seasonal way of thinking about it. So it's very hard to predict. In fact as I mentioned earlier, we went back and looked at seasonality for the last three or four years and we couldn't figure out what it was looking at all the data of 16 quarters' worth of data to try to figure out seasonal patterns. We couldn't figure out any seasonality. So very hard to predict that.

<Q – Chris Danely – JPMorgan Securities LLC>: Can you tell us what sort of turns business you're expecting this quarter and then what it was last quarter? What would be typical?

<A – David Zinsner – Analog Devices, Inc.>: Chris, my standard response on that is we don't really quote that number only because at least half our revenue is distributor based and but we have the backlog coming in from the distributors but we don't recognize it until it ships out. I mean I think Jerry said qualitatively that we're in a higher turns like environment. We don't put a number to it, but nevertheless, clearly customers are not layering in tons of backlog. They're not ordering until they really need it and so we have quoted four-week lead times. That's about how much time it takes from the time we get an order until the time we're shipping at this point

<A – Jerald Fishman – Analog Devices, Inc.>: Matter of fact, a large part of the product line is quite a bit less than four weeks. In fact it's probably four hours.

Operator: Your next question comes from Uche Orji from UBS. Mr. Orji, your line is open.

<Q – Uche Orji – UBS Securities LLC>: Sure. Thank you very much. Jerry, can I just ask you a question and probably something I don't fully understand. You talked about some of the comm infrastructure customers doing more of a software upgrade rather than a hardware upgrade. Any comment as to what extent we are able to stretch that and what in types of technologies? I mean is it within 3G or isn't that a 2G level and why you think that we'll have to stop that now and do more of a hardware upgrade? I just wanted to get into more insight as to that comment.

<A – Jerald Fishman – Analog Devices, Inc.>: Yes, Vince is going to answer that.

<A – Vincent Roche – Analog Devices, Inc.>: Yes, well most of our business, the GSM or 2G component of our business is becoming smaller and smaller over time. So most of the, if you like, the upgrades that are being managed through software are largely in 3G systems today, but there's only so far that that will get you. Because every year, the data requirements are increasing two-fold. There's 90 million 4G enabled handsets out there today and they all require – they have an insatiable appetite for more and more bandwidth which is driving – this data is driving the need for extended bandwidth RF transceivers and that's our game in the wireless arena and higher frequency requirements as well across multiple different geographies with different spectral needs. So our sense is from talking to some carriers, talking to our customers, the second half of this year is going to see an upgrade in equipment at the 3G and particularly 4G level.

<Q – Uche Orji – UBS Securities LLC>: Okay, that's helpful. Let me just ask a separate question. Jerry, in terms of understanding the target inventory for customers, I mean, I think it was Dave who explained that the target is for 8 weeks and you currently are at 7.5 weeks.

<A – Jerald Fishman – Analog Devices, Inc.>: Well that's in distribution.

<Q – Uche Orji – UBS Securities LLC>: In distribution exactly.

<A – Jerald Fishman – Analog Devices, Inc.>: Distribution, right.

<Q – Uche Orji – UBS Securities LLC>: Let me understand that. I mean because last year, I think starting from 2009, there was all this talk about inventory moving down to slightly lower level over time because of improvement in BMI. And is there any reason why we shouldn't assume 7.5 weeks is not the new normal and why 8 weeks should be? And the reason I ask this is because it kind of inflames an assumption about a future tailwind coming from inventory restocking. Do you think 7.5 weeks is kind of where we should be modeling now as normal in which case we can conclude we've normalized in terms of channel inventory?

<A – Jerald Fishman – Analog Devices, Inc.>: I think there's no meaningful distinction between 7.5 weeks and 8 weeks. Maybe 7.5 is the new norm or 7.2 or 8.3. We just don't know. But we're saying that it doesn't impact much what we do. So whether the new norm is 7.5 or the new norm is 8, we're going to still do the same thing. We're going to have inventory available when our customers or distributors need it. And that's what we have done through the last couple of cycles. It's significantly improved our competitive position relative to those who try to call it more tightly than that and I think that's what we're going to do going forward. I think there's no meaningful distinction to us and how we operate the business whether the new norm is 7.5 or 8 weeks.

<A – David Zinsner – Analog Devices, Inc.>: In particular because we don't recognize the revenue until it ships out from the distributors.

<A – Jerald Fishman – Analog Devices, Inc.>: Yes, so it doesn't impact anything the way we run the business. So if we could be equally predictive on other measures at Analog, I'd be quite happy.

<A – Maria Tagliaferro – Analog Devices, Inc.>: Okay operator, can we have the next question, please?

Operator: The next question comes from the line of Jim Covello from Goldman Sachs.

<Q – James Covello – Goldman Sachs & Co.>: Great, thanks so much for taking the question, guys. I appreciate it. Somewhat related question on inventory. Just to be clear, does your guidance assume any customer restocking in the out quarter, or is the growth in the quarter just coming from some combination of a pickup in end demand and/or customers just continuing to get their orders back in line with their demand?

<A – Jerald Fishman – Analog Devices, Inc.>: Again, it's hard to be quantitatively precise to answer your question. But I'd say the lion's share of what our guidance includes is customers ordering consumption. That's where we think most customers are in their thinking right now.

<A – Vincent Roche – Analog Devices, Inc.>: Yes, our customers are indicating that across the broad customer base, particularly in the infrastructure area, the CapEx area like industrial and communications infrastructure, that their inventories are at a very normal level now and very much in line with consumption. So I think that cycle of over build is finished and customers are back to a normal order pattern.

<A – Jerald Fishman – Analog Devices, Inc.>: I think in the de minimis level, there are still some customers that are destocking that we've heard of and there are some customers that are going to restock a little bit. But the predominant mode most customers are in and what Vince said that we believe they're going to be ordering what they use.

<Q – James Covello – Goldman Sachs & Co.>: That's helpful. And for a follow-up, as we go through these cycles, normally what happens is something causes lead times to begin to stretch out a little bit, and that's what starts the customers to reorder a little more, build a little more inventory or move away from the high turns components that they're putting on you guys right now. Last time obviously, it was testing capacity to cause leads' times to stretch. In other cycles, it's been other things. I know it's difficult to predict, but what kinds of things do you see out there that could potentially cause lead times to stretch out a little bit this quarter and kind of begin that cycle all over again?

<A – Jerald Fishman – Analog Devices, Inc.>: Well, we can only speculate about that. Certainly we've heard anecdotes about foundry capacity getting a little bit tighter. We know that many of the assembly test subcontractors are thinly capitalized so they don't carry a lot of extra capacity. So I think if the order trends started getting more confirmed and more positive, I think most semiconductor companies are reporting an improved order environment. I think that if that continues with the relative scarcity of capacity out there, I think lead times for those that aren't thinking about it clearly could ascend.

Our goal is not to have that happen. Our goal is to really stay on top of this and keep our lead times in the range they've been in. And if we do that, then that creates no need for customers to double and triple order and confuse us and by definition our investors. So I mean our goal is to really watch that carefully and keep the lead time short. It helps our customers. It helps you. It helps us. And that's what we're going to do in the cycle, just like we did in the last cycle. Those are the pressure points typically. I think most semiconductor manufacturers have capacity in sight that's available to ramp up. We certainly do. So I think the pressure points will likely be on the outside, not necessarily on the inside.

<Q – James Covello – Goldman Sachs & Co.>: Thank you so much.

Operator: Next question comes from the line of Vivek Arya from Bank of America Merrill Lynch.

<Q – Aashish Rao – Merrill Lynch, Pierce, Fenner & Smith, Inc.>: Hi, this is Aashish Rao for Vivek. Couple questions on the consumer front. In January, I think you had indicated that Thailand floods had impacted some of the consumer and home entertainment builds, and you had also indicated that you expected consumer to be up slightly in April but then sales kind of declined 8% quarter on quarter. I mean, could you give some color on that?

<A – Jerald Fishman – Analog Devices, Inc.>: Well, we were wrong. I think our consumer business just across many different segments of it went down. Part of it was inventory that got a little too high, higher than we had thought. Secondarily there was some products that in some end markets that weren't selling particularly well. The consumer cycle was not a strong cycle in the last three months. So I think those things qualitatively made our estimate wrong. We were also wrong on the industrial side where we thought it was going to be much lower than it is.

So in these parts of the cycle at the inflection points, it's very challenging to figure out what the aggregate is going to be, and I tell you even more challenging to figure out what any of the individual segments are going to do at least in the short term. I mean, that's part of the challenge now with all the changes that are going on to try to figure out the segment growth. We try to give you the internal plan that our product and marketing salespeople have for each of those segments. We try to give you a little color at least directionally where we're thinking it's going to happen. But very typically, we're happy to get the aggregate right. The individual categories are very volatile. It's very hard to get that correct.

<Q – Aashish Rao – Merrill Lynch, Pierce, Fenner & Smith, Inc.>: Okay. Got it. And then it just sounded also on the call that you were excited about some new product cycles in the consumer segment and this is even after the divestitures of the computing and the handset exposed products. I mean your sales from fiscal year 2010, you were averaging about $155 million or so a quarter. I mean right now, you're at $108 million.

<A – Jerald Fishman – Analog Devices, Inc.>: Right.

<Q – Aashish Rao – Merrill Lynch, Pierce, Fenner & Smith, Inc.>: I mean, is this just a cyclical recovery that you're expecting in consumer or are there really some new product cycles?

<A – Jerald Fishman – Analog Devices, Inc.>: I'd say it's predominantly new products that we've refocused on as we've decreased investments in consumer products that we didn't think fit well with our long-term portfolio. So I think we've decreased investment in some of those areas. We've refocused them on areas that we think are suitable for the product mix and the margin models that we have for the company and I think those products are being well received.

<Q – Aashish Rao – Merrill Lynch, Pierce, Fenner & Smith, Inc.>: Okay, so should we expect any kind of growth rate targets you have for this business off the bottom?

<A – Jerald Fishman – Analog Devices, Inc.>: Why don't you give us a couple more quarters and then we'll talk about it.

<Q – Aashish Rao – Merrill Lynch, Pierce, Fenner & Smith, Inc.>: All right, cool. Thanks.

Operator: Next question comes from the line of Stevie Smigie from Raymond James.

<Q – J. Steven Smigie – Raymond James & Associates>: Great, thanks. Dave, I was hoping you could comment on any internal efforts you guys have been making in terms of gross margin improvements. Basically I was just looking for an update on some of the pricing strategy efforts you've been making and some of the efforts on making products more easy or more efficiently to manufacture.

<A – David Zinsner – Analog Devices, Inc.>: Yes I mean all of those are progressing and I think we're in kind of middle innings of making improvement in both those areas. We do believe that will be tailwinds to our gross margins. The biggest thing of course that will improve the gross margin is to get the utilization up and so getting the business back to the levels we saw in 2011, I think will be the biggest driver for gross margin.

<A – Jerald Fishman – Analog Devices, Inc.>: I think last time our gross margins got up to about 67%, there was a lot of conversations about were those anomalous or were there one-time things that were driving that up because it was so much higher than Analog, ADI did historically. I think the fact that we got back over 65% and below $700 million in revenues is a very good sign that the kind of improvements that we made are not fleeting, that they're permanent and that we have pretty good expectations on the gross margins of the company as revenues build as Dave said. I think that those numbers this quarter on the gross margin were very encouraging to us.

<Q – J. Steven Smigie – Raymond James & Associates>: Right. And just as a follow-up on that, to what extent can you get let's say in a better more normalized macro environment, to what extent can you get above that 67%? And just to sneak one more in, can you talk a little bit about what OpEx dollars might look like over the next several quarters if, assuming modest, sequential revenue growth? And have we sort of reached a dollar plateau here now that you've added in those extra items mentioned earlier or will that still keep expanding?

<A – Jerald Fishman – Analog Devices, Inc.>: Dave, I'll turn that one over to you on the expected and I'll talk a little bit about the margins.

<A – David Zinsner – Analog Devices, Inc.>: Okay. So on the OpEx side, we are expecting it to obviously increase this quarter a little bit, I think a little around half the rate of revenue growth. We did better than that obviously in the current quarter. And that's generally our goal is to try grow expenses at a rate that's below the rate of revenue growth, get good fall-through to the operating margin line.

<A – Jerald Fishman – Analog Devices, Inc.>: I think on the question of the margins, the margins are a combination of price and cost. As somebody asked earlier, we're continuously ensuring that we get paid fairly for our products, so I think that helps us. We're continuously setting tougher cost objectives on the products. Our goal is to be, from here to be increasing the gross margin sequentially as the revenues go up and if we continue to do that, I think everyone will be very happy with gross margins we get.

<Q – J. Steven Smigie – Raymond James & Associates>: Great. Thank you.

Operator: Next question comes from line of Craig Ellis from Caris & Company.

<Q – Craig Ellis – Caris & Co., Inc.>: Thanks for taking the question. Jerry, I appreciate the candid acknowledgement of an uncertain macro. As you look around today and assess the backdrop that you have, how would you compare it to the same time last year? What are the positives and what are the headwinds?

<A – Jerald Fishman – Analog Devices, Inc.>: Well I think this time last year, we were really worried that not only were there sort of macro issues developing, but there was a significant amount of inventory that was in the channel out there and people really inventoried up much more so than we or anybody else had thought during the earthquakes and tsunamis that happened around that time. And so we were faced with a situation where you had macro sort of demand issues. At the same time, you had very significant inventory out there at our customers and in the distribution channel. The intersection of those two things took a big whack out of all of us.

I think where we are today is we still have macroeconomic issues. Some would argue that they are closer to getting resolved. Some would take a different point of view on that. But certainly this time relative to what consumption rates are, there's not a lot of inventory out there in the channel to compound that issue. So I think from that standpoint, Craig, I think we feel like there's less downside risk than there was a year ago at this time. And I think at the same time with the customer cycles that we're hearing about from our customers, I think there's more upside potential.

So qualitatively, I think sitting here today a year after all those events last year, we're feeling better than we did a year ago. Certainly not without risk, but better.

<Q – Craig Ellis – Caris & Co., Inc.>: That's helpful. And then the follow-up to you Dave, you guys did a great job with the dividend increase a quarter ago and despite that and buying back stock, the cash balance still moved up. So how should we think about how you're thinking about cash management here?

<A – David Zinsner – Analog Devices, Inc.>: Well, we're obviously anxious to return the cash in the form of dividends and opportunistic buybacks. I think we'll continue to do that. Obviously we build a lot, or we generate a lot of cash which is a high class problem, but however I think you'll see us continue to be committed to both buybacks and dividend growth going forward.

<Q – Craig Ellis – Caris & Co., Inc.>: And what's the percentage of cash that's in the US versus overseas at this point?

<A – David Zinsner – Analog Devices, Inc.>: I think I mentioned we have $1.1 billion in the US. The rest is overseas.

<Q – Craig Ellis – Caris & Co., Inc.>: Thanks, guys.

Operator: The next question comes from the line of Stacy Rasgon from Sanford Bernstein.

<Q – Stacy Rasgon – Sanford C. Bernstein & Co. LLC>: Hi guys, thanks for taking my questions. For the first one, how do I think about the impact of what sounds like a very strong potential consumer cycle into the back half in 2013 on gross margins? Can you talk a little bit about some of the drivers of margin into the back half and as we exit the year around product mix given some of those cycles around utilizations and growth and as well as maybe some of the other initiatives that you're targeting?

<A – Jerald Fishman – Analog Devices, Inc.>: I think on the consumer side, I wouldn't want to let the expectations run away with us here. The reason we mentioned it is that we have been very clear that we were really narrowing our reach in the consumer business to applications that add a lot of value to the customers and therefore were valuable to us and I think we're beginning to see the fruit of that. I don't think we're talking about numbers that are going to fundamentally change the needle. I think consumer applications typically carry somewhat lower gross margins than the average, particularly in the industrial business. But at the same time, they carry very high operating margins since below the line, there's not a lot of expense.

So I think carefully managed and carefully executed, consumer business is a fine business. It's just you've got to be very careful of what you do and who you do it with and who you do it for, in order so you get don't get banged around by product cycles that are out of your control and margins that result from being in that vise. So I think it's important and I wanted to clarify that. We're not talking about any huge disruption here that all of a sudden we're going to have a lot more consumer revenue than we've had historically. It's just we have a couple good product cycles. Incrementally, it's going to make our computer business grow a little bit. It's been declining.

<A – David Zinsner – Analog Devices, Inc.>: Consumer.

<A – Jerald Fishman – Analog Devices, Inc.>: Our consumer business, rather, grow a little bit where it's been declining. I think that's going to help the top line a little bit.

<Q – Stacy Rasgon – Sanford C. Bernstein & Co. LLC>: Got it. So to be clear then, you don't foresee mix, I guess, turning a little more negative on the gross margin front as we exit the year then?

<A – Jerald Fishman – Analog Devices, Inc.>: Given Dave's guidance on the gross margin, I don't think so.

<Q – Stacy Rasgon – Sanford C. Bernstein & Co. LLC>: Got it. Thank you. And for my follow-up, just a question on the automotive market. It's obviously been very strong for you and for a number of other players for the last few quarters. What's your point of view on the stability of that auto strength as we're say going through the rest of the year, maybe into 2013. Do you think what we're seeing is actually stable unit growth? Is there any chance that what we're seeing potentially is pull forward of demand? Can you give us some view of how much of the upside you've seen has actually been unit growth versus overall electronic content increasing versus your design win traction increasing?

<A – Vincent Roche – Analog Devices, Inc.>: It looks like this year the number of cars that are sold worldwide will reach 80 million, up about 5% and the content, the electronics content per car continues to increase. From our perspective, we're very well positioned. We play with all the leaders worldwide. We have a particularly strong position with European OEMs who are doing as you know extraordinarily well in the world market, particularly in America and Asia. So my sense is that the growth pattern we've seen will continue for the remainder of the year. We'll have another good year in automotive and for the next number of years as well. So all the indications are that we'll see a growth here in terms of units, car units and growth in electronics content. So we're feeling very positive about it.

<Q – Stacy Rasgon – Sanford C. Bernstein & Co. LLC>: Got it. Thank you, guys.

Operator: Next question comes from the line of Ross Seymore from Deutsche Bank.

<Q – Bheeshm Chaudhary – Deutsche Bank Securities, Inc.>: Hi guys, thanks for taking my question. This is Bheeshm Chaudhary for Ross. Just a quick question. I was curious what your revenue guidance would be for the next quarter if you recognized distribution sales on a – or distribution revenues on a sell-in basis?

<A – David Zinsner – Analog Devices, Inc.>: We have no idea. We don't measure it that way and so we don't pay any attention to it.

<A – Jerald Fishman – Analog Devices, Inc.>: Although I expect it would be higher.

<Q – Bheeshm Chaudhary – Deutsche Bank Securities, Inc.>: Okay. Thanks.

<A – Maria Tagliaferro – Analog Devices, Inc.>: Do you have a follow-up?

<Q – Bheeshm Chaudhary – Deutsche Bank Securities, Inc.>: No, that's good. Thank you.

<A – Maria Tagliaferro – Analog Devices, Inc.>: Okay, thanks.

Operator: Your next question comes from the line from Sumit Dhanda from ISI Group.

<Q – Sumit Dhanda – International Strategy & Investment Group, Inc.>: Hi, guys. One question I had on the comm infrastructure stuff where you're expecting a pickup in the back half. I guess my question was, is that just based on a general sense that spending needs to revive or do you have some specific indications from your customers, perhaps in specific geographies that suggest that you will indeed see nice a pickup in the third and the fourth quarter of this year?

<A – Vincent Roche – Analog Devices, Inc.>: Well for example, China Unicom, who is a WCDMA operator, they have been very vocal as have AT&T about the LTE deployment. So I think if you look at some of the carriers, they're being a lot more aggressive and certain of what they're going to do in the second half and our customers also are seeing their order books firm up. So I think it's not just wishful thinking. My sense is based on the order streams that we're seeing in the last couple of months and what we're hearing from our customers and the carriers, that there's real demand in the market to continue to build up macrocells in particular. And I think over the next 18 months what you're going to see is a very aggressive move toward small cell architectures as well to supplement the macrocells.

So our expectation by the way over the coming two years, this year there will be somewhere in the region of, I believe somewhere in the region of 1 million macrocells in production, deployed I should say, 1.1 million, 1.2 million. And what we're expecting is over the next 3 to 4 years, that that will probably triple or quadruple. So there's going to be a major buildout that we're kind of gliding into over the next two to three quarters, I believe.

<Q – Sumit Dhanda – International Strategy & Investment Group, Inc.>: Okay, that was very helpful, thanks for the color. And then for my follow-up, Dave, I know you don't guide to turns, but perhaps you could tell us whether you think it's directionally up, down or flat, and/or whether you expect any difference in distributor versus OEM sales or order patterns through the course of the July quarter?

<A – David Zinsner – Analog Devices, Inc.>: It is down, I would say probably directionally as Jerry kind of made a comment about I think earlier on that qualitatively we think that increasingly the – particularly the OEM customers are shortening their lead times and putting more on turns basis. As far as OEMs versus disti, I believe our expectation is that OEMs will be growing a little bit faster than disti next quarter.

<Q – Sumit Dhanda – International Strategy & Investment Group, Inc.>: Thank you. Very helpful.

Operator: And the next question comes from the line of David Wong from Wells Fargo.

<Q – David Wong – Wells Fargo Advisors LLC>: Thanks very much. Looking forward, can you tell us what are your highest priorities are in terms of either product segments or end market segments for R&D investment?

<A – Jerald Fishman – Analog Devices, Inc.>: Well, I think the way we look at R&D is now everything we're doing is the priority because all the ones that weren't, we're not doing anymore. So that is a simple way to look at it. There are market segments and product segments in each of the end markets that we believe are very favorable and are good matches to the technology that we have, where we can offer products our competitors can't do.

So I don't think that there is any one particular market that we're favoring more than the others. If we're investing R&D in a market, then we think we're going to get a good return on it or we're not going to invest in it. So I think the segments that we've talked about, the industrial segments, there is 10 or 11 segments in there. The communications infrastructure market, the consumer market, particularly as related to portable products, I think those are all high priorities for us which is why we're putting a fair amount of R&D into all those segments.

<Q – David Wong – Wells Fargo Advisors LLC>: Okay. Thanks.

<A – Maria Tagliaferro – Analog Devices, Inc.>: Okay. Well, I believe that was the last question that we had in the queue. So that brings us right up to the 6:00 hour.

<A – Jerald Fishman – Analog Devices, Inc.>: Very disciplined group.

Maria Tagliaferro, Director of Global Communications, Analog Devices, Inc.

Yes. So we want to thank everyone for joining us. Just as a reminder, the third quarter earnings call is scheduled for August 21. That will start again at 5:00 p.m. Eastern Time. Appreciate your attention today and have a great evening. Thank you.

Operator: This concludes today's Analog Devices conference call. You may now disconnect.