FINAL TRANSCRIPT

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ADI - Q4 2009 Analog Devices Inc. Earnings Conference Call

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PRESENTATION

Operator

Good afternoon. My name is Gerald and I will be your conference facilitator. At this time I would like to welcome everyone to the Analog Devices fiscal fourth-quarter 2009 earnings conference call. (Operator Instructions). Ms. Mindy Kohl, you may begin your conference.

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Mindy Kohl - *Analog Devices Inc. - Director IR*

Thanks, Gerald, and good afternoon everyone. This is Mindy Kohl, Director of Investor Relations for Analog Devices. We appreciate you joining us for today's call. If you haven't yet seen our fourth-quarter and fiscal year 2009 release, you can access it by visiting the Investor Relations section of our website at WWW.analog.com.

This conference call is also being webcast live. 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 this call's completion, and will remain available via telephone playback for one week. This webcast will also be archived at our IR website.

Participating in today's call are Jerry Fishman, President and CEO, and Dave Zinsner, Vice President of Finance and CFO. During the first part of the call Jerry and Dave will present our fourth-quarter and year-end results as well as our short-term outlook, and then we'll open it up for questions during the last part of the call.

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 reconciliation 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 have also updated the schedules on our IR website, which includes the historical quarterly and annual summary P&L for continuing operations, as well as historical quarterly and annual information for product revenue from continuing operations by end markets and by product types.

Next, I would ask you to please note that the information we are 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 can contribute to such differences include, but are not limited to, those described in the Company's SEC filings, including our most recent quarterly report on Form 10-Q.

The forward looking information that is provided by the Company in this call represents the Company's outlook as of 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 November 23, 2009.

With that, I will turn it over to our CEO, Jerry Fishman.

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

Thanks, Mindy, and thanks to everybody for joining us on today's call. As you can see from the earnings announcement we put out earlier today, our fourth-quarter was a very strong quarter for ADI. Our revenues increased by about 16% or about $80 million sequentially to $572 million, which was well ahead of the earlier forecast that we communicated to you last quarter.

We experienced the strongest sequential growth in automotive and consumer products, but I think most importantly we also began to see very strong growth in our traditional industrial products, which grew 14% sequentially.

Communications revenues declined very slightly as a result of inventory rebalancing at some of our largest infrastructure customers. PT revenues, which are now a very de minimis part of our business, also grew sequentially. Revenues grew sequentially in virtually every product category at ADI in our fourth quarter.

Year-over-year and the full year results by end market and product category, as Mindy mentioned earlier, are available on ADI's Investor Relations website for your review.

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Importantly, our gross margins for the quarter increased by 220 basis points sequentially to 56.3%, which was also well ahead of our expectations. That is despite a sales mix that favored lower margin automotive and consumer products. This increase was primarily due to higher sales and an increase in our industrial business, which provided slightly better factory utilization.

Inventories declined to 92 days and are now at historically low levels. Despite much lower inventory, our service levels to our customers remains very good, and our leadtimes continue to be very short for most of our products.

Operating expenses increased approximately 3% or about $6 million sequentially, but were down over 19% from the same period last year, excluding one-time items. The sequential increase in Q4 was primarily due to higher variable compensation expense resulting from the 650 basis point sequential improvement in our operating margins in Q4. All other expenses during the quarter were essentially flat to Q3 levels.

As a result of very strong sequential sales gains, coupled with a 220 basis point improvement in gross margins, and a 430 basis point improvement in operating expenses, operating margins expanded to 22.5%, up from 16% last quarter.

Interestingly, for each additional revenue dollar we drove about approximately $0.62 to operating profit. This really demonstrates the very significant leverage that we have built into our model in the past year or two through manufacturing consolidations and corporate-wide cost reductions, which is in-line with the plan that we communicated to you over the last few quarters.

In Q4 our earnings-per-share grew to $0.36, which was up 64% sequentially from Q3. About $0.01 of that increase was the result of a year-end tax adjustment.

So overall Q4 was a very successful quarter by most measures, as we executed on our important objective to emerge from this cycle a more focused and a more profitable company.

So now I will turn the mic over to Dave who is going to review the financials in a bit more detail.

Dave Zinsner - *Analog Devices Inc. - CFO*

Thanks, Jerry. As Jerry stated revenues were $572 million, which was a 16% increase from the prior quarter and a 13% decrease from the prior year. Orders increased substantially again this quarter. We closed the fourth quarter with a book to bill that was well above 1, resulting in higher backlog.

Gross margins were 56.3%, which was more than 100 basis points higher than expectations. This was up from 54.1%, which we reported in the third quarter. As Jerry mentioned, this was due to higher sales and increase in our industrial business, which provided slightly better factory utilization.

Inventory on our balance sheet declined by $23 million or 8% this quarter. And days of inventory fell to 92 days, which is a recent record for ADI.

We increased utilization slightly this quarter, however, demand from our OEM customers and distributors was even stronger, which was the primary driver for the reduction in inventory.

Looking ahead to next quarter, we are expecting utilization for our two internal fabs to increase again modestly to respond to the increased level of demand. Days of inventory will likely remain at similar levels to this quarter.

We have been able to maintain leadtimes in-line with prior quarters, and feel comfortable that we can operate at these historically low levels of inventory. Distributor inventory increased slightly; however, days of inventory remained relatively flat, an indication that the channel continues to watch inventories closely.

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As we expected, third-quarter 2009 gross margins appear to have represented a trough for this cycle. We believe that gross margins will continue to improve throughout the next several quarters and expect that we will be above 60% by the end of fiscal 2010.

There are several drivers to this gross margin improvement. First, we are just beginning to realize the savings from our two fab consolidations, which will begin in earnest in fiscal Q1 and continue throughout the year. Second, we should experience a richer product mix in 2010 as a result of the reprioritization of our investment over the past few years.

Third, we have had a significant focus on inventory levels during the cycle and as a result we have kept utilization low when sales declined. As our industrial business grows we are anticipating utilization will steadily improve, which should drive further gross margin improvement.

Lastly, we are expecting depreciation to gradually decline over the next several years as we keep capital spending at historically low levels, approximately 3% of sales, reflecting higher external wafer purchases, which require less capital spending at ADI.

For the fourth quarter capital expenditures were approximately $16 million and for the full year they were $56 million. This represented a 64% decline from fiscal 2008.

Operating expenses were $193 million, up $6 million or 3% from the prior quarter, but down $46 million or 19% from fourth quarter of the prior year, excluding one-time items. The increase quarter over quarter was almost entirely the result of increased variable compensation expense on a 63% improvement in operating income.

We have seen solid results from our initiative to get more leverage from our operating expenses. In fact, the last time we were at similar revenue levels to Q4, which was approximately $575 million in revenue, our operating expenses were more than $75 million higher on an annualized basis.

For the first quarter we expect operating expenses to be approximately flat with the fourth quarter. In subsequent quarters we are planning modest sequential increases as revenues increase.

Other expenses were approximately $1 million, as expected. At this point we're not expecting a rise in short-term rates, which would benefit our nonoperating income, so we expect that other expenses will be approximately $1 million next quarter as well.

Our annual tax rate was lower than the rate we anticipate at the end of our third quarter, so we trued up our tax rate in the fourth quarter of fiscal 2009, which had the effect of increasing our EPS by $0.01 per share. Next year we expect our tax rate to be approximately 19% to 20%.

Weighted average diluted shares outstanding were 294 million this quarter. And we are expecting weighted average shares for next quarter to be about 300 million.

Diluted EPS from continuing operations was $0.36, down 27% from $0.49 in the year ago period, but it was up 64% from $0.22 in the immediately prior quarter.

Cash flow from operations was $163 million or 29% of sales. And as I mentioned earlier, we had $16 million in capital expenditures, which resulted in free cash flow of $147 million or 26% of revenue. We also paid out $58 million this quarter in dividends.

Total cash and investments at the end of the fourth quarter were $1.8 billion, up $92 million from $1.7 billion last quarter due to continued strong cash flow from operations and low capital spending. Net cash after debt was approximately $1.4 billion.

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Our AR balance increased slightly due to the increase in shipments; however, our DSOs stayed relatively flat at 48 days. And we have no customers that are late to their payment terms.

In summary, this was a very solid financial quarter for ADI. Our goal has been to drive more leverage in our model during this cycle, and Q4 represented evidence that we are beginning to see the expected expansion of gross and operating margins.

Now I will turn the call over to Jerry to discuss key end market trends and our short-term outlook.

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

Thanks, Dave. Revenues from our very broad-base of industrial customers, which are about 52% of our total revenues in Q4, were up 17% eventually. And as you might remember, that category is inclusive of automotive and healthcare, both of which grew at very high sequential rates last quarter.

External to the automotive and healthcare segments, our classic industrial revenues, which include process control, factory automation, instrumentation, grew approximately 14% sequentially. Automotive sales were particularly strong due in part to automotive stimulus programs providing a boost to sales in North America and Europe, but also as the result of a much richer automotive product portfolio that we are now selling at ADI.

Revenues from automotive customers increased 37% sequentially in Q4, reaching levels close to their peak, which we experienced in the third quarter of 2008. In Q4 sales of our battery monitoring, brake sensing and automotive MEMS products all increased significantly. We had further design activity for our lithium-ion battery monitoring solution for hybrid and for electric vehicle systems with suppliers in North America, in Europe and also in China.

Revenues from our healthcare customers returned to growth this quarter, much as we had expected, and increased 17% on a sequential basis, although still quite a bit now from the fourth quarter of last year. Overall design-in activity at healthcare customers continues at a very rapid pace. And we believe we have the opportunity to grow our share in many important areas of this market, particularly in advanced imaging systems, where our newest 128 channel 24-bit converters enable four dimensional views of internal organs.

Based on the strength in both the OEM and distribution orders, which has continued into November, and the growth in our backlog, we are expecting a further increase in industrial sales in the first quarter.

In the communications market sales of optical, networking and wired infrastructure products all increased from the previous quarter. Wireless infrastructure products declined slightly as a result of delayed GSM deployments in developing regions, which resulted in inventory level adjustments by some of our customers. Deployment of the more advanced 3G systems, which enable high-speed data services, remains strong in the developed regions, as operators continue to upgrade their networks to capture the increased mobile data traffic. And our sales to the 3G applications increased slightly in the quarter.

For the first quarter of 2010 we expect continued modest sales growth from 3G system upgrades, and for sales from basic GSM applications to remain flat to Q4 levels. Looking forward our customers expect contracts to be awarded in China for the next phase of 3G deployment in early 2010. And depending on the actual timing of these deployments, these should drive upside revenues in the out quarters. As we mentioned previously, our market position in China is very, very strong and we expect that as those deployments get made they should positively impact our revenues.

Revenues from consumer customers were about 25% of our revenues, up 38% sequentially with very strong sales in all major consumer applications. Q4, as you might remember, is typically a very strong consumer quarter for ADI as builds get done ahead of the holiday season. Consumer revenue has now returned to pre-downturn levels, with sales increasing for the third consecutive quarter, albeit at a more significant rate in Q4.

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Contributing to our fourth-quarter growth in consumer products were increasing sales or analog front-end products for cameras, HDMI-related products, and also MEMS-based products as well.

We expect consumer sales to be down in the first quarter as they typically are, as ordering typically slows following the Christmas build.

Looking forward to 2010, we continue to very closely monitor our customer ordering patterns for clearer signals about the prospects for growth for the year. During the fourth quarter of 2009 order rates from end customers accelerated very significantly and grew by approximately 17% sequentially. As a result backlog for delivery in the next 90 days grew substantially.

Our belief is that this atypically strong growth in Q4 was really the result of three things. First, overall many economies began to improve from the depressed levels of 2009. This is particularly noteworthy in our industrial business, which as I mentioned earlier, includes factory automation, process control and factory instrumentation and scientific instrumentation. In addition, the automotive stimulus programs no doubt provided a boost to sales to automotive customers.

Secondly, many customers have now moved from an inventory depletion mode -- to an inventory accretion mode rather, from an inventory depletion mode that they have been in over the past year, as they now have become incrementally more positive about their businesses and have worked their inventories down to extremely low levels.

Thirdly, ADI is benefiting from what appears to be a very rich new product cycle as a result of having made more focused investments over the past few years. So we expect that our industrial revenues will continue to grow sequentially in Q1 in-line with higher manufacturing activity worldwide and a higher opening backlog.

For the first quarter we are expecting automotive and communications sales to be relatively flat compared to the fourth quarter. In addition, we are planning for consumer sales to decline in Q1, given the large sequential revenue increases in Q4, which -- some of which may not repeat in Q1, and also very typical seasonal patterns for lower consumer sales that we often see in Q1.

So as a result when we add up the growth we are expecting in all market segments we are planning for revenues in Q1 to be approximately flat to Q4 levels and up 20% from the same period last year. Our current planning assumption for our 2010 plan is for revenues to increase throughout 2010, beginning in our second quarter.

We are planning for gross margins to increase again in Q1 as a result of lower infrastructure costs and a much richer mix of industrial sales. Our current plan is for gross margins to increased by an additional 150 to 200 basis points to 58% to 58.5%. We anticipate gross margins to continue to expand throughout 2010 for many of the reasons that Dave mentioned earlier.

We are planning for operating expenses in Q1 to remain relatively flat to Q4 levels, in-line with our plan to achieve very high operating leverage going forward. For the balance of this year we are planning for only modest increases in operating expenses as revenues increase.

Given this level of revenues and margins and our expense plan, our plan is for diluted earnings from continuing operations in Q1 to be approximately $0.36 to $0.37, excluding restructuring charges that we plan to take in Q1 associated with the final closure of our fab in Cambridge.

We are planning for continuing low capital expenditures for 2010 in the range of $60 million to $70 million, or 3% of sales, with depreciation currently running at about 6% of sales.

So in summary, overall we are executing well on our plan to transform ADI's business model to produce good growth at higher margins. First, we continue to realign our investments and our product portfolio to better focus on the most promising and the most sustainable opportunities where ADI's technology makes a fundamental difference to our customers.

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Just recently we announced a major reorganization of our design, marketing and selling resources, which we believe will better balance our product or technology centric structure that has made us so successful for four decades with a parallel market facing structure that will make it much easier for customers to gain access to the breadth of ADI's technology. This structure will provide much greater strategic clarity at ADI, and I believe really help us focus our resources on the highest corporate priorities.

Secondly, we have fundamentally reduced, and we will continue to reduce, ADI's infrastructure costs worldwide. As a result of these and other actions we believe we are very well positioned to deliver significant operating leverage as revenues increase, as I think we amply demonstrated in our Q4 when earnings increased over 60% on a 16% revenue increase.

In just the past 12 months we have consolidated two complex wafer fabs. We have reduced inventory levels from 141 days to 92 days. And we have kept customer service levels high during the entire process.

Our continuing short leadtimes reduced the risk of double ordering from our customers and our distributors, and I believe provide competitive advantages relative to suppliers whose leadtimes have extended.

Finally, despite all the tremendous challenges during 2009, we have continued to invest for the future. This strategy produced a record crop of 300 new products in 2009. We expect many of these innovations to be strong growth drivers for ADI over the coming quarters as these products help our customers solve extraordinarily difficult signal processing challenges.

With Q4 new product sales at amongst the highest levels in the history of ADI, many of these recently introduced innovative products have shown excellent revenue momentum right out of the gate. And we should continue to enjoy the benefits of these products in 2010 and beyond.

As we have said many times in these calls, our long-term success will often be dependent on how we respond to downturns, which occur routinely in our business. Last year we presented a strategy for navigating through the downturn, which we believe would result in ADI emerging in an even stronger position than we have been in before the economy went into a tailspin.

Over the past year by maintaining a relentless focus on innovation and executing our strategic priorities, including the aggressive streamlining of our cost structure, we have emerged in a very strong competitive position, perhaps the strongest position in our history.

During the past few years Analog's employees around the world have stepped up and embraced these challenges with a great sense of purpose and determination, which we believe will reward investors in the coming years.

Mindy Kohl - *Analog Devices Inc. - Director IR*

Thank you, Jerry. During today's Q&A period please limit yourself to one primary question and one follow-on question. We will give you another opportunity to ask additional questions if we have time remaining. Operator, we are now ready for questions from our analyst participants.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). John Pitzer, Credit Suisse.

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John Pitzer - *Credit Suisse - Analyst*

Congratulations. Jerry and David, when you talk about the order rates in the October quarter being up 17% sequentially and backlog growing, I'm wondering why just flat revenue growth in the fiscal first quarter. Is that typically a quarter where you are dependent upon less turns, or are you just throwing in some tops down conservative -- conservatism just given the volatility in the macro environment?

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

I think certainly we are always cautious during all these periods where you can't quite predict the ordering patterns and the revenue patterns as you normally can during a stable market. So we are running the Company conservatively. We are setting the expense objectives conservatively and the revenue objectives conservatively.

Certainly we have the capacity to ship more than flat this quarter. Even though our inventories levels have come down quite a bit, we have very good coverage on inventory, very short leadtimes. So if it does turn out that the revenues are -- turn out to be stronger, then we will certainly be ready to do it. But we are trying to manage the Company relatively conservatively, given all the uncertainty out there in the markets.

Typically our first quarter is a down sequential quarter. Mostly because the consumer market goes down and we get last days of sales for our industrial products, which tends to -- generally we were down a couple of percent to 5% in the first quarter. So I think with flat tails in Q1 that is going to be a better quarter than we typically have sequentially.

That is I think particularly true given the very large increase we had last quarter. Which anytime where companies like ADI or any of our competitors puts up a mid-double-digit sequential number you have to be a little cautious for the next quarter, and I think that's what we are trying to do.

John Pitzer - *Credit Suisse - Analyst*

As my second question, David, if my notes are right, I believe you talked about utilization rates being about 45% in the July quarter. They ticked up here a little bit. I guess I am curious, at what utilization level do you start to see leadtimes stretching out, or I guess, what is your ability to keep leadtimes from not stretching out given the pickup in end demand?

Dave Zinsner - *Analog Devices Inc. - CFO*

Well, I think I said in the actual prepared statement that we are now -- we are starting to rethink the model on inventory. Originally we thought we would operate in the 100 to 110 day range. We have operated now in the 92 range for a quarter. Leadtimes have not moved out at all. We have been able to service every customer out there. So I think we are now operating in a different model for inventory, where is more in the 90 to 100 days. Which makes sense, we are becoming more of a hybrid between internal and external manufacturing. We have the ability to order wafers relatively quickly from our external foundries. So I think that we are comfortable at this point where the range is.

We will tick up utilization again next quarter a little bit, just to catch up a little bit since we obviously brought down inventory quite a bit. But I don't imagine it going up too significantly until we start to see industrial continue to grow.

John Pitzer - *Credit Suisse - Analyst*

I guess is there an utilization level where leadtimes will stretch out and you will have to build inventory and customers will have to build inventory? Or is that no longer applicable, just given that the flex capacity --?

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Dave Zinsner - *Analog Devices Inc. - CFO*

We are at 50% utilization now, give or take, and we have plenty of headroom to bring that utilization up.

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

We can respond reasonably rapidly. The equipment is installed. The labor forwards, at least on the engineering and management level, is pretty well fully staffed. So if we decide to, we can ramp that production pretty quickly.

Our plan right now is to ramp it slowly as long as we can keep the leadtimes down. To the extent we sense that leadtimes are going to extend, we would ramp it more quickly, and that wouldn't take us very long.

But our sense is to try to keep the inventories low and to keep the leadtimes low. And so far we have been able to do that. Even though we got surprised on the upside on the revenues by quite a bit this quarter, we really didn't run into any shortages of any consequent. And our production people feel pretty good about being able to respond pretty quickly to anything that comes our way in the next couple of quarters.

John Pitzer - *Credit Suisse - Analyst*

Thanks guys. Very helpful.

Operator

Uche Orji, UBS.

Uche Orji - *UBS - Analyst*

Jerry, let me just follow up a little bit on the leadtime comments. Through this reporting season we haven't really had many companies admit to having long leadtimes. It is always people saying we don't have long leadtimes, but the market leadtime is higher.

Can you give us a sense of just in terms of your vantage view of the market where leadtimes really are? I know yours are short, but in terms of your ability to take marketshare as a consequence of long leadtimes in industry, just help us quantify the way (multiple speakers).

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

I think there is a group of competitors out there that I think have, and typically do, keep their leadtimes very short. And they don't make massive changes in their production levels. I think we have other competitors that have really fallen behind on their ability to supply customers. So I think it is really a mixed bag. I will leave it up to each of our competitors to say who they are. But it really is a mixed bag out there.

For a while the foundries were struggling to keep up, but I think by and large the foundries have kept up at least with our requests from them. And so I don't expect that there is huge shortages out there, except from a few suppliers in a few markets, but not across the board. So I can't speak for anyone else's leadtimes or for anyone else's plans to keep them lower. I can just speak for Analog's, and we are going to keep them low.

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Uche Orji - *UBS - Analyst*

Just as a follow-up, can you talk about within your product areas amplifiers, it is the only product category that did not grow double digits this quarter, any underlying dynamics in the amplifier business that is restricting growth within that business?

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

No, I think it turns out that when you have the most strength in the automotive business and the consumer business, a lot of those are in the -- they have a lot of converters and amplifiers built into them, but they are typically more integrated products where they go into the other category -- the other analog category.

So I don't think there is any real information there. It just turns out that a large part of the strength -- or the most strength was in automotive and consumer products, which aren't as prevalent as standalone converters and amplifiers as say the industrial businesses.

Uche Orji - *UBS - Analyst*

Just one last question. The communication inventory correction you mentioned, I know you expect to see some growth at the beginning of next year in the communication infrastructure business. Can you just talk about where you think we are with the inventory correction? And that's it. Thank you.

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

Well, I think it has lasted a couple of quarters, lasted a little bit longer than many of us would have believed. You might remember that prior to a couple of quarters ago the year-over-year increases were staggering at the beginning of the downturn in the cycle. That was the only thing that was keeping most of us running.

Our sense is that there is another big TDS CDMA deployment coming up in China. The tenders are out there. And there is very varying accounts of whether that will be our first quarter, our second quarter, our third quarter. It is very, very hard to tell. But I think it will happen this year. And when it does happen, we will do quite well, as well as with 3G deployments in other locations around Europe and the United States.

One of the big variables is we still sell stuff into the older GSM standards, mostly in the developing countries and that tends to bounce around a little bit. So this business has always been an up or down business, and the only thing we can do is make sure that our share remains strong, which it is, that our content keeps increasing in each of those base stations, which it has. And now the -- quarter to quarter that is going to be a lumpy business.

Operator

Jim Covello, Goldman Sachs.

Jim Covello - *Goldman Sachs - Analyst*

The first question, where do you guys think we are relative to the inventory correction in the industrial segment in particular? In other words, do you think you are still -- are you still undershipping your customer demand in the industrial segment or do you think we have caught up there now?

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

That is very, very hard to be definitive on. We serve a lot of those customers through our distribution partners. And the commentary that -- the conversations we have had with the larger distributors more recently indicates that they don't think there's a lot of inventory building going on in industrial customers. They think they are resetting their inventory models. There is probably -- their guess is Q1 is going to be atypically strong as they complete that.

But what they are the most optimistic on is that these companies are thinking they're really going to grow. When you look around in the United States, it is hard to get enthusiastic about what you see going on in the industrial base in the United States, or what is going on in many US companies. But if you look outside the US in the large industrial customers we have in other locations, they are doing pretty well. Their business continues to grow. And increasingly a larger percentage of our business is now coming outside the US in industrial customers, as well as the large base we have inside the United States.

So it is hard to tell, but all we can do is repeat what we are hearing from the distributors and our largest customers. They tell us -- they seem to be quite confident that they are not building a lot of inventory, they are just replenishing it. And they are probably at least partially, if not mostly, done with that. But the reason they are buying product now is because they're expecting next year to be better than this year.

Jim Covello - *Goldman Sachs - Analyst*

That's very helpful. If I could just ask one follow-up. Dave, what do you think it would take for you to surpass your previous historical margin levels in this upcoming cycle? Thank you.

Dave Zinsner - *Analog Devices Inc. - CFO*

Well, I think we are going to surpass the previous cycle. We've got a number of things -- tailwinds in our favor. One, the two fab consolidations drive about $65 million of annualized savings. In the first quarter we will start to see -- the first of the savings will probably be somewhere in the $5 million to $7 million for the first quarter. So that is going to be a good tailwind for us.

Depreciation is also coming down. I mentioned the capital spending is now lower at the Company, given our half external, half internal kind of model, give or take. So that is also going to drive some good savings.

I talked about the mix. I think Jerry talked about mix as well. We think industrial mix is going to improve over the course of next year. And so those things should all drive good margin improvement. We think we will beat the previous peak, which was about 61%. And we feel pretty confident of that fact at the moment.

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

A lot of the things we have done on the OpEx side, which is the other really great driver of what margins we ultimately achieve, as we have mentioned, some of those things creep back in very slowly, but a large part of those things are not going to creep in. So we are going to wind up as we get -- as Dave mentioned, at the same revenue levels that we had last time we had this revenue level, we have fundamentally lower costs. And I think the costs of the Company are going to continue to remain under very, very tight control, given the margin leverage that we are seeking. And I think also that we are learning how to manage the business with less OpEx, and I think that is going to continue to go on.

So I think for both of those reasons in terms of the gross margins and the OpEx line, we still think from here we've got plenty of leverage left. And when we get all that leverage we will be at higher margins than we were at comparable sales in the last cycle.

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Jim Covello - *Goldman Sachs - Analyst*

Thank you very much. Good luck.

Operator

Ross Seymore, Deutsche Bank.

Ross Seymore - *Deutsche Bank - Analyst*

Thanks guys. Congratulations. Two quick questions. Jerry, when you talked about the disti's, I believe, going from depletion to accretion mode, usually that doesn't end well. Can you just talk to us about how far along that process they are, and maybe give us a historical context about --.

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

I think they are relatively past that process. What really happened is the distributors, and in fact all the customers, just stopped when the business went to hell, the credit markets didn't allow people to borrow to buy inventories and so on. I think if you look at what they have been doing, they have been trying to get back on the right number of days in the channel.

Dave mentioned earlier that distributor inventory hasn't gone up at all in days. I think that is -- when you talk to the distributors they basically are very, very tight on what they're trying to do. For a quarter or two we would see the orders on us be ahead of the orders that the end customers would place on them. But increasingly over the last month or two you see those lines starting to converge.

So I think there has been a catch-up in trying to get their inventory up, but I think they are being incredibly tight compared to what we have seen in previous cycles on their inventory management. And if you believe them, and when you look at them in the eye, I do believe them, that I don't think they're going to go out there and just randomly buy inventory right now. I think the level of discipline everybody has, from the customers to distributors to even us is much, much greater than it has ever been.

So, no, there is always that risk that you mention. For those of us that has been around a long time we have all seen the phenomenon you mention. But we watch our distributor turns very, very closely. We hit their inventories every single week and we look at them very closely. And we are determined not to overstock our distributors. It is not really a battle right now, because they're not running ahead anymore of what their customers are ordering from them, which is why the turns are staying about constant.

Ross Seymore - *Deutsche Bank - Analyst*

I guess just from -- so we can quantify it a little bit, how does the days they are carrying out -- I know they are flat sequentially, as you said, but how does that absolute days level compared to either where they were a year ago or some historical "normal" level?

Dave Zinsner - *Analog Devices Inc. - CFO*

It is a little bit lower than normal levels. But I think we are in a new environment where normal levels are a lot lower.

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Ross Seymore - *Deutsche Bank - Analyst*

Right. (multiple speakers).

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

That is what we believe that the divergence between those lines are converging. And it might be that the distributors really want to run their businesses at lower levels, and they are certainly talking like they would rather do that. And I think that is a good idea.

Ross Seymore - *Deutsche Bank - Analyst*

I guess as the follow-up question than, switching to gross margin, in the outlook for it to go up 150 to 200 basis points basically, can you just walk us through the metrics there? Because I could think with mix and utilization being positive, plus you get the first batch of the Limerick cost savings, I would think it could have been at least what you guided to, if not potentially a little bit better. So if you could just help quantify those levers please.

Dave Zinsner - *Analog Devices Inc. - CFO*

Well, it can always be better, obviously. But I think the way we are thinking utilization is probably probably adds another 75 basis points. The fab consolidation probably adds another 75 basis points, and then mix is probably another 50 to 100 basis points.

Ross Seymore - *Deutsche Bank - Analyst*

Great. That's what I needed. Thank you.

Operator

Romit Shah, Barclays Capital.

Romit Shah - *Barclays Capital - Analyst*

I wanted to follow up again on questions -- more the longer-term question. It seem like you have the ability to drive gross margins into the mid-60% range. But if you look at companies that are in that range or higher, they don't seem to be growing as fast. So my question is, Jerry, do you think there is a correlation there? And if so, how do you think about balancing revenue growth and margins at ADI?

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

Well, that is something we worry about and look at and think about very, very carefully as we do this thing. There is a lot of ways to get your gross margin up that are very negative to sales growth. You can go out and raise all your prices and see what happens -- play chicken with the customers. That tends over time to have a very deleterious affect on your revenue growth, both in the short term, I would say, and in the long term.

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The other thing you can do is you can get your costs down and increase your gross margins. Our fundamental strategy is more the latter than the former. We have a higher average selling price for our product than many of our direct competitors. I think we have the opportunity to run much higher margins as a result of that.

So I have always said that we are not turning away a lot of business at 60% gross margin to try to get the margins up by a point or something. Any business that comes along that is credible, we are in. So I think it is mostly a question for Analog of cost reduction rather than price increases. And that is what we are going to do. That is what we have done over the last year or so and that is where the focus is going to be.

I think if you follow that leg of the stool you don't lose business. In fact, there is an opportunity to get even more business, because you can be more price competitive. So I don't -- we are not going to push Analog down the rabbit hole of let's take 75% of the revenue that is above some gross margin and give the rest of it away. I don't think that is a good long-term strategy for any company, certainly not for Analog.

We have businesses, as you know, where we never expected we could get a return on the R&D investment, either at the gross margins or the operating margin level, and those businesses we have decreased investment in or have gotten out of.

But this isn't a relentless push in Analog for gross margin at any sales revenue level. It is to have better than industry average growth and increasing gross margins. I think we can accomplish both of those things simultaneously by really focusing on the cost part of the equation.

Romit Shah - *Barclays Capital - Analyst*

Do you think 65% is a realistic gross margin target down the road?

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

I think when we get to 60% we will have this conversation again. But as Dave said, we have a lot of headwinds and -- have a lot of tailwinds rather, and we will see how it goes. We are putting up a lot of gross margin leverage last quarter, and we are going to put up a bunch more this quarter. And we are going to put more up by the balance of the year. Let's see how we do over the next couple of quarters and we will put up a new model that we do.

Operator

David Wu, GC Research.

David Wu - *GC Research - Analyst*

Just to remind us, how big is the automotive business in the fourth quarter?

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

In dollars or percentage?

David Wu - *GC Research - Analyst*

Either way.

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Dave Zinsner - *Analog Devices Inc. - CFO*

The automotive is a little bit north of 10%.

David Wu - *GC Research - Analyst*

Automotive (inaudible)?.

Dave Zinsner - *Analog Devices Inc. - CFO*

Is that what you asked?

David Wu - *GC Research - Analyst*

Yes. The other thing I was wondering is you have -- you have been watching the distributors improve their inventory turns. But how do you monitor your ODMs -- and they go through their -- do you have hubs with them? And how do you see -- monitor their behavior relative to inventory depletion or too much accretion? Some of our wonderful analysts are thinking that accretion may be too much in the very near future. But (multiple speakers).

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

Well, all the data that is out there indicates that the distributor inventories are lower last quarter than they were the quarter before. So the data out there does not support that contention that we've seen. With the large customers all we can really do is -- we do sell it to some of them through hubs so we can really get to see what is there. We have very close contact with our largest 200 accounts, and when we talk to them we talk a lot about supply.

So all we can do -- it is not a highly quantitative model with the large customers, but we tend to have a reasonably good sense of the attitudes of our customers and whether they are piling up stuff. We have a lot of years of historical sales and inventory data from our large customers. So we have -- we crank through those numbers pretty hard. And when we get a sense that one of our large customers is building inventory on us, we talk about it quite directly with them. So again, it is not as quantitative as we would all like, but it is qualitatively a pretty good indicator.

David Wu - *GC Research - Analyst*

Approximately what percentage of your large customers are in hub at this point?

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

I don't really have that statistic. The ones that are -- and everybody has a hub as I expect we do, but I don't have that statistic (inaudible).

Operator

Terence Whalen, Citi.

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Terence Whalen - *Citi - Analyst*

Jerry, I think in your concluding remarks you made several points, and I was hoping to revisit a couple of these. I think a lot of the questions already have pertained to topline and gross margin. I was hoping to make this question about operating expenses.

One of your first points is you said you were making changes that I think overall were intended to improve the customer facing experience.

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

Yes.

Terence Whalen - *Citi - Analyst*

Then your second point pertained to fundamentally reducing infrastructure costs. I wanted to understand maybe two or three points specifically how you can balance those opposing goals of really improving the efficacy of your sales and distribution, while reducing the cost of that. And the reason I ask the question is because I think as we see good sales growth, I think there might be some investment skepticism around the ability to really rein in the costs.

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

I guess the only way ever to prove that is to do it. But just conceptually the way we are thinking about it, is at Analog we have grown up as a product company over the years. And as a result, we have had a lot of different product groups all over the Company that basically ran their businesses, did a very good job of doing that, and each of them was a relatively self-contained business, whose only goal was to grow and make money.

When -- the change we made was basically to try to say that we have a business like that, but we don't need the level of decentralization in those businesses that we have had historically. And there are opportunities to get much greater benefit of scale, much greater sharing of technology, much less overhead costs in each of those businesses. Decentralization is a great thing in terms of getting focused, but it is a terrible thing in terms of cost.

So as you create more centralized ways of thinking about, even the technology dimension of the Company, I think there are great opportunities that we have seen, and I think there is more to come in getting the infrastructure costs of the Company down.

The other part of the mix fear of creating these market facing groups is just a way of more efficiently dealing with customers. Again, when you have many, many different product groups, I think at the peak we probably had 45 or 50 different product groups in the Company, and every one of them is out there banging on the customers for their particular application or product, it is not a very efficient utilization of their time. And it is very inefficient for the customers and for salesforce to have to drag around 47 different product lines to these accounts.

I think by a much more centralized look on a tactical basis we just save a lot of time and money in trying to deal with the largest customers, and we also can deal with them with a full breadth of ADI's technology.

I would say lastly, and it might turn out to be of all these things the most important, is that we now can look at each of these market segments and set the priorities across the Company, rather than looking at 45 or 50 different product groups and trying to set the priorities.

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Just in going through the 2010 planning process, when we are determined to keep the OpEx relatively flat, and we have a lot of different people who have a lot of different ideas on what they would like to do, just the strategic clarity that we can bring to bear on those decisions, and the analysis that we can do of what we are putting in and what we are getting out of a particular market segment, is much, much better. And has given us just a much clearer sense of where the money is going, what the input/output ratio is in some of the things we are doing. And therefore what are the investments that we are going to continue to support and what are the investments that we are going to decrease are supported. It is just a much more efficient way of running the Company.

So those things, when you first look at them, sound like they are -- they counterbalance each other. How can you drive more sales growth and get the cost down at the same time? But that is our job, to get good growth and get the cost structure of the Company down. I think everybody around the Company believes that is our job, and we are going to do that.

The other thing -- there are many skeptics out there about can you do that, but we understand that. But I think using the fourth quarter as a proxy for our determination on that, I think you can probably get a sense that we are serious about that.

Terence Whalen - *Citi - Analyst*

Okay, crystal clear. I appreciate it. I think the follow-up then is to Dave. Dave, I think in the past you talked about reaching a peak sales level -- a prior peak sales level I think which was about $659 million or $661 million, with about $200 million to $210 million OpEx. Can you validate whether that is a reasonable modeling window? Thank you.

Dave Zinsner - *Analog Devices Inc. - CFO*

I think the way we're thinking about it on OpEx as a target is really the target in the low 30s. Historically when we are at higher peak levels of revenue, we have really been kind of in the mid-30s. So we see trying to drive the OpEx more into the low 30s as a percentage of sales, and couple that with a gross margin in the low 60s, and I think you get a pretty good number for operating margins -- well above prior peaks.

Terence Whalen - *Citi - Analyst*

Thanks for the clarity. I appreciate it.

Operator

Steve Smigie, Raymond James.

Steve Smigie - *Raymond James - Analyst*

I just wanted to follow up a little bit more on the OpEx. Dave, I know you said -- I think dollar-wise you expect only pretty modest increases going forward. Are there any short-term cost reduction efforts you took during the downturn that have yet to come back into the numbers?

Dave Zinsner - *Analog Devices Inc. - CFO*

We have taken a lot of actions up until this point to get the number to where it is. We are always looking to squeeze out efficiencies, obviously. But the variable expense that could find its way back into the P&L, we think is essentially under our control. In fact, most of it is variable comp that is tied to operating margins improving.

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We are in a situation now where we think the OpEx is in our control and we can manage it effectively going forward really to drive to this kind of target operating expense as a percentage of sales.

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

Let me -- this is Jerry -- that continues to pressurize us to keep looking at all the things we are doing and prioritize. What we are communicating around the Company is that the worst thing we could do right now is wipe our brows and say, we have survived and everything is great, and now we are back to doing it the way we used to do it, and we don't have to make hard choices anymore.

The message that we are communicating very candidly around the Company is, that process of continuing to see where the investment should go and prioritization and continuing to drive the cost down, those are not one-time phenomena that is caused by the world falling apart last year. These are things that companies like ADI, given the markets we are in, have to do every year. That is what our plan is to do.

Steve Smigie - *Raymond James - Analyst*

Just as a follow-up, just for modeling purposes, would I expect then sequentially over next few quarters percentage-wise to see that keep trending down, or could you have maybe one quarter where it pops up a little bit again?

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

We will have to see how the revenues go, but our sense is that should keep trending down as a percentage of sales.

Operator

Craig Ellis, Caris & Company.

Craig Ellis - *Caris & Company - Analyst*

Dave, as we look at the gap between depreciation and CapEx how much of that gap goes away as you get the two fabs shut down later this year?

Dave Zinsner - *Analog Devices Inc. - CFO*

The two fabs are actually shut down. So we completed the last shut down as of the end of this quarter. So in far as depreciation expense next quarter, we won't have the Cambridge depreciation expense, although it was only I think a couple of million dollars a quarter.

Really what will drive depreciation down further from here really is a function of the fact that we are just spending less in capital. Now that is a function obviously of having two less fabs than we had a year ago.

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

And a lot of capacity.

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Dave Zinsner - *Analog Devices Inc. - CFO*

And a lot of capacity.

Craig Ellis - *Caris & Company - Analyst*

Then as a follow-up, just on one of the product areas, looking at power management, it popped up obviously still one of the smaller businesses, but in the 28% sequential growth is that all just seasonality or are you starting to get some traction on some of the design activity that the Company has been working on to try and grow that business organically?

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

I think we are getting some good design traction. And there is some seasonality in that number, so I think it is both, but there is no doubt we, after a lot of investment, are beginning to get some traction in that business.

Craig Ellis - *Caris & Company - Analyst*

In the past, Jerry, you have talked about I think potential design wins in base stations and other more traditional ADI type applications. Is that where you are seeing that happen?

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

We are seeing it happen across a wide spectrum of markets, those being one of them.

Operator

Stacy Rasgon, Sanford Bernstein.

Stacy Rasgon - *Sanford Bernstein - Analyst*

First, just to revisit the OpEx again. So OpEx this quarter was up $5 million. I know before you had about $20 million in temporary savings. So does this imply that all the permanent savings were there? You got $5 million back of the temporary and/or -- because -- or were there more permanent savings that also happened this quarter?

I would also like to see if you could give me some feeling of at what revenue level you would expect all temporary cuts to actually be back into the operating model?

Dave Zinsner - *Analog Devices Inc. - CFO*

Let me think about it. So as I talked about in the prepared comments, the $5 million increase -- that's right -- was all as a result of variable comp coming back. So in a sense that was temporary cost savings when operating margins had declined a lot, and now that is phased back in.

There is obviously always some amount of infrastructure related reduction that are phasing into our P&L as well. It was in the million-ish kind of range, the $2 million range this quarter. So it wasn't a lot of savings that flowed back into the P&L in the fourth quarter.

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As far as when we get back to our peak revenue levels, and all our temporary expenses -- or temporary reductions are back in, again, I would point again to our target. Our target is to get the low 30s in operating expenses. And this obviously, as Jerry mentioned, requires some rolling up our sleeves, but we feel like we have a good track to get there.

Stacy Rasgon - *Sanford Bernstein - Analyst*

For my follow-up I would like to see if we could visit the fab consolidations. So the last time I think you closed a fab was in Sunnyvale a couple of years ago, where you were targeting about $40 million or so in annualized savings. When that was done you never really actually did seem to see those levels of savings realized in the form of structurally higher gross margins.

I'm actually wondering is there anything different from the current fab consolidations versus Sunnyvale? If you could just walk me through maybe where the savings from the last one went and what might be different this time?

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

There is a whole bunch of effects that happen when you close a fab. And it turned out right after we closed that fab, of course, business went down quite a bit, and where you really see the benefits of that is when you can load up your other fabs and you get rid of some structural costs.

I think the difference is this time we have taken a real large slug of capacity out. Those were fabs that had a lot more -- these fabs had a lot more expense than the Sunnyvale fab, which was a relatively low-cost fab. And we already seeing the benefits of that as we have come into these consolidations at the right time in the cycle, where we are going to start increasing utilization.

So if we didn't think that we could get all the benefits of these fab closures, or many of the benefits, I think we wouldn't be saying that we think we can get the gross margins up above 60%, because there would be no way to do that.

I think our sense of where, as we have gone through all the details of the cost savings, how it is going to play out for the next couple of quarters, under the assumption that the world doesn't collapse on us, we have a pretty good bead on. And those analyses indicate the kind of gross margins that Dave has been talking about.

Stacy Rasgon - *Sanford Bernstein - Analyst*

Got it. But the Sunnyvale actually wasn't that small in terms of costs. I think you had said you were targeting $40 million then. It is $65 million this time, so it is not that different.

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

So I am not sure what the question is.

Stacy Rasgon - *Sanford Bernstein - Analyst*

I'm sorry. Like you said, you thought this time the cost savings were much bigger than Sunnyvale. You were sort of offering that up as one reason, along with I suppose, the business falling off with Sunnyvale as one reason why those were never realized. But I would think even if the business was falling off, most of that $40 million as far as I know was supposed to be labor related. So I would have expected to see it show up in terms of structure and higher margins even then.

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

Most of the $40 million is not labor related. There is a lot of equipment you take off-line. There's a lot of -- generally in a fab about one-third of the cost are labor, and one-third of the cost are overhead, and one-third of the costs are all the other direct costs of running the fab.

So the -- I would -- everyone should look at it the way they are comfortable looking at it, but the way I would look at it -- what I would look for is what happens with the gross margins. If the gross margins go the way that Dave and I have been planning and talking about, then we will have gotten very substantial savings in these fab closures. If it turns out that they are not, either something went wrong pretty significantly or these are all illusory and you don't get any savings when you close a fab.

My guess when history is written -- and the reason that we are comfortable enough to talk about these kind of levels is we have gone through a tremendous amount of detailed planning, and those are the numbers that come out of this plan.

Stacy Rasgon - *Sanford Bernstein - Analyst*

Just so I know, so out of the $65 million from these -- my understanding was about $5 million was depreciation and the rest was other stuff, labor and operating expenses, is that true?

Dave Zinsner - *Analog Devices Inc. - CFO*

No, I think it is about $14 million that was depreciation.

Stacy Rasgon - *Sanford Bernstein - Analyst*

$14 million.

Dave Zinsner - *Analog Devices Inc. - CFO*

Out of $65 million.

Operator

Sumit Dhanda, Banc of America.

Sumit Dhanda - *Banc of America - Analyst*

I had a couple questions. Dave, the consumer business is doing particularly well, at a quarterly roommate now which is not too far from the peak you registered before the downturn started. Can you help us quantify what is really helping with the consumer MEMS design win, a big driver? And have you maxed out that opportunity or is there more to go there?

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

It was really a combination of things. The more standard traditional consumer areas in cameras and other connectivity parts of the consumer business did very well. We do have some good design wins in the MEMS consumer area that ramped up last quarter. We think there is a lot of potential for that going forward. So I think it is a really a combination of all those things that led to that growth.

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Sumit Dhanda - *Banc of America - Analyst*

Then on the Limerick facility, you mentioned $5 million to $7 million in benefits from savings in fiscal Q1. So when you annualize that number that is $20 million to $28 million, so right in line with the $25 million you talked about, Dave. I guess my question is, is there more to come from that facility as you look into fiscal Q2? And if so, does that imply that the benefits from that restructuring are tracking ahead of what you had initially anticipated?

Dave Zinsner - *Analog Devices Inc. - CFO*

Let me be clear. The seven-ish million -- call it $5 million of savings we will see in Q1 is really associated with the Limerick consolidation, which is about a $40 million annualized savings. So we are getting about half a quarter's worth of savings on the Limerick consolidation in Q1.

The Cambridge one just closed at the end of the fiscal year. So it takes a little while to digest the older inventory at the higher cost. So I wouldn't expect us to see any savings there until the back half of the year.

Sumit Dhanda - *Banc of America - Analyst*

That would be the $25 million?

Dave Zinsner - *Analog Devices Inc. - CFO*

That would be the $25 million of annualized savings, yes.

Sumit Dhanda - *Banc of America - Analyst*

Then the last question I have for you, Jerry, on the auto business two straight quarters of very good growth. I think you said 37% in the October quarter. But entering the quarter you hadn't anticipated a pickup after the strong growth you had seen in July. Do you have any sense of whether this is -- I know you're guiding this business flat, but given that you are back to a peak run rate, do you think we have overstretched in terms of the recovery in that business, or do you think there is organic growth left to be had in that business into 2010?

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

I think one of the reasons we are optimistic about that business for 2010 is the product cycle we are in in that business. We put a fair amount of money in R&D into that. I mentioned some of the product areas in my opening remarks that we are having great success in.

So I think if we were just thinking of the baseline, given that -- all the clunker programs have wound down, we would be more circumspect about the auto business next quarter or two. But our sense is we were in a very rich new product cycle in the auto business, which will counteract what probably was some one-time events that went on in the automotive business in the last quarter or two.

Operator

Manish Goyal, CREF Investments.

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Manish Goyal - *CREF Investments - Analyst*

I am curious about how to think about stock buyback in 2010. Thank you.

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

We will have to just wait and see. We historically have had fairly aggressive buyback and dividend programs. We are now starting to achieve a little more cash and we are more confident. We still don't have a lot of cash in the US, but anyhow, we will have to wait and see how that goes in conversations with our Board.

Manish Goyal - *CREF Investments - Analyst*

Jerry, just maybe if you can explain, what is -- what are the factors in consideration for having a buyback program?

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

It has a lot to do with just where our cash is, which is still predominantly overseas, and our expectations about what happens -- what is going to happen with the tax regulations relative to that going forward. And also our sense of where the business is headed and what the distribution of the cash we are going to generate is likely to be for the year.

So we review that with the Board once a quarter, and we are going to review that with them again this quarter at our Board meeting. Then we will get a consolidated view of where that is, what is likely to happen, and we will decide what to do.

Operator

Doug Freedman, Broadpoint AmTech.

Doug Freedman - *Broadpoint AmTech - Analyst*

I will try to ask a question without repeating any of the already asked ones. Is it possible for you guys to remind me when your annual and promotion costs kick in?

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

Typically they kick in in our second quarter. But we haven't decided what we are doing about that this year yet.

Doug Freedman - *Broadpoint AmTech - Analyst*

Then just in, Jerry, a little bit bigger picture look at things. Your fab situation utilization levels aren't really that different from those across the analog industry. We hear from most companies utilization is 50%, 60% level. Now that demand seems to be more normalized, if that is a fair statement, I believe there is a good risk -- investors are concerned about the risk that we see increased ASP pressure. Can you comment on what you guys are seeing, why you don't think when demand comes back that we don't see ASP pressure to take on that mentality of fill the fab? And I will have a follow-up to that.

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

I think for those of us that have been on the high end of analog business, the real key is that so much of the product portfolio is not directly copyable, let's say. So we typically -- we didn't see a lot of pressure on the ASPs when business got poor. Even though most people are still pretty unloaded, the product categories that we compete in with most of the high-end analog companies are not those that we primarily compete on -- price on.

So we have been through a lot of these cycles, and we typically on the upside or the downside don't see a lot of price pressures. We, of course, have prices that are lower on the existing products each year than the year before. That is very natural, particularly with the larger customers. But on the other hand our job is to come up with very innovative products, where you don't have a lot of competition. And we're -- even though that our job really is to create solutions for customers that are great value without reducing the price. So I don't think that is going to change very much. We don't see movement on the ASPs very much in aggregate through the Company in any of these cycles.

Doug Freedman - *Broadpoint AmTech - Analyst*

That leads me into volume pricing agreements that tend to be in the communications end market. We are at the point -- time of year where those volume pricing agreements get set and awards are offered. Any commentary on what type of year-over-year ASP erosion you saw on those and (multiple speakers).

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

Again, I don't -- we tend to supply more and more integrated solutions to the customer base you're talking about. So I couldn't quote you a specific number. Where you are selling the same product as you sold last year, there is always price pressure, particularly in certain regions of the world.

What we've got to do is, A., we've got to continue the innovation thing. And secondly we've got to make sure costs are going down faster than the prices are going down. That is what we have been doing for many years, and I think that is what we have to continue to do.

Doug Freedman - *Broadpoint AmTech - Analyst*

If we look at the coms market you guys had a really -- it was one of the better performing segments throughout the year. Have any of your communications customers given you an idea of what their capital budgets are going to be for 2010, whether we are going to see follow-through in that segment outperforming?

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

From the conversations that we have had with the largest infrastructure customers in Europe, to some degree in the US, and certainly in China, I would say the feedback we get is they are expecting 2010 to be a good year. It is lumpy quarter to quarter, but I think in aggregate they are enthusiastic about their prospects for the year, and that is the sentiment they have communicated to us.

Doug Freedman - *Broadpoint AmTech - Analyst*

Great. Thanks for taking my questions.

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Mindy Kohl - *Analog Devices Inc. - Director IR*

Okay, well, we appreciate your participation today. I look forward to talking with all of you again during our first-quarter 2010 conference call scheduled for February 17, 2010. Thanks very much.

Operator

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

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