FINAL TRANSCRIPT

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ADI - Q2 2009 Analog Devices Inc. Earnings Conference Call

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PRESENTATION

Operator

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

Ms. Kohl, you may begin your conference.

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

Thanks very much. 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 have not yet seen our second quarter fiscal 2009 release, you can access it by visiting our website at analog.com, and clicking on the headline on the homepage.

This conference call is also being broadcast live on the internet from analog.com, select Investor Relations, and follow the instructions shown next to the microphone icon. A recording of this call will be available today within about two hours of the call's completion, and will remain available via phone and internet playback for one week. This Webcast will also be archived on our IR website.

Participating in today's call are Jerry Fishman, President and CEO, and Dave Zinsner, Vice President of Finance and CFO. During the first part of the call, Jerry and Dave will present our second quarter results, and our short-term outlook, and then we will open it up for questions. During today's call, we will refer to several non-GAAP financial measures that have been adjusted for one-time items, in order to provide investors with useful information regarding our Results of Operations and business trends.

We have included reconciliations of these non-GAAP measures to the most directly comparable GAAP measures in today's earnings release, which is now posted on the IR website. We have also updated the schedules on our IR website, which include the historical quarterly and Annual Summary P&L for continuing operations, as well as historical quarterly and annual information for product revenue and continuing operations, by end market 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 could 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 filed this afternoon.

The forward-looking information 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 May 19, 2009.

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

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

Well good afternoon to everybody, and thanks for joining us on today's call. As you can see from the press release we put out this afternoon and also our 10-Q, our Q2 revenues and profits were both well above the expectations that we communicated last quarter, as business levels stabilized, and our cost reduction actions were more aggressive than originally thought, in response to continuing economic uncertainty that still exists today.

Revenues for our second quarter were approximately flat to Q1 levels, and earnings per share increased sequentially by 17%, excluding restructuring charges. On a sequential basis, operating expenses also excluding restructuring charges declined by 8% sequentially, and are now down 20%, or $48 million in total over the past two quarters. Though the economic environment remains very challenging, we are encouraged by the continuing stability of our bookings activity over the past three months. We have also been getting a very general sense from many of our customers that their incoming business levels have stabilized, and their inventories have now reached satisfactory levels, after two quarters of in some cases very significant declines.

For the second quarter, our revenues were $475 million, which was down 27% from the prior year, and about flat to last quarter. In aggregate, our revenues grew sequentially in communications infrastructure, and also in consumer products. However, our revenues continued to decline, albeit at a much reduced rate in the industrial markets, as capital spending worldwide remain depressed, and our industrial customers have remained cautious. In-line with these market trends, revenues increased sequentially in Asia, and declined sequentially in Europe and North America, both of which are more dependent on industrial capital spending.

Revenues for our very broad base of industrial customers, which were 52% of our revenues in Q2, were down 31% year-over-year, and also down about 5% sequentially. Revenues from factory automation, instrumentation, and healthcare customers declined slightly from the prior quarter, and while we don't expect much further erosion, we have not yet really seen any meaningful momentum in these markets.

Not surprisingly, the automotive market remained troubled, and our revenues from the automotive market were down 38% from the prior year, although we did see a small sequential increase as European automakers returned to production, after numerous inventory reducing shutdowns during the prior quarter. While automotive customers worldwide are plagued by very weak unit sales, their reliance on electronics to quickly bring differentiated features to the market continues to drive up vehicle signal processing content, so this bodes well for ADI, when this industry does eventually regain some momentum.

As was the case in the first quarter in a few industrial markets our revenue declines have been less severe. Revenues from defense customers were down only a small amount, and products that sell into industrial infrastructure, such as security systems and energy management systems, and that is true particularly in China, were again much less effected, than in the US and in Europe. Despite the current weakness for our industrial customers, we continue to be very enthusiastic about the mid to long term potential for ADI in the industrial markets for three important reasons.

Number one, our sales to industrial customers over the past two quarters have declined at a significantly higher rate than industrial production has declined in the US and Europe, which generally drives this business. Specifically industrial production and output, which is often a very good leading indicator of industrial capital spending declined approximately 9% over the last six months, while our sales to industrial customers from ADI declined 28% during the same period. This implies that we have absorbed a very significant inventory correction, and that our sales to industrial customers have been well below their consumption rate of our products. Therefore, even if capital spending stays at depressed levels, it would be logical to assume that our sales to industrial customers have reached, or will soon reach or approach trough levels, and will recover very quickly when capital spending begins to improve.

Secondly, we have seen an increase in our industrial sales in China in-line with the governments industrial stimulus spending, and that is likely to continue, or perhaps even accelerate in the future, and lastly, our industrial customers buy our highest performance converters and amplifiers as well as many ASSPs, and our competitive position and our share continue to strengthen in many of these product categories. In fact the most recent data that was published just recently, in the last couple of weeks I believe, by the Gartner Group, indicates that our converter market share increased to 40% in 2008, up from 37% the year before.

We are also seeing very good design activity and good design wins across all of the industrial markets we serve, which could accelerate our sales rebound, when our customers confidence improves in the United States and Europe. In the second quarter, revenues from our communications customers were 29% of our revenues, down 7% from last year, but up 8% sequentially. The recovery of the communications infrastructure market was driven in large part by China awarding 3G licenses in January.

ADI is very well-positioned across many customers, many standards, and of course, many geographies to take advantage of the upside from the China 3G rollouts, as well as continued 2G expansion in emerging markets, and upcoming 4G infrastructure buildouts in the future. Design activity remains very strong with these customers, as we expand the bill of materials presence we have to a much broader section of products, and that should continue to improve our long term market share in this market, as we emerge from the downturn.

We also saw an increase in our wireless handset business in Q2, which has become now a relatively small part of our overall communications business, as we have now focused our investments primarily on analog products and higher end phones. We believe the handset business which was down significantly in the first quarter, most likely has adjusted production levels to be more in-line now with end demand.

Revenues from the consumer end market were 17% of our total revenues, down 36% from last year, but up 5% sequentially, primarily due to increased sales of products like digital cameras, after very significant declines in our first quarter. Although the consumer market of course continues to be weak, here again the second quarter saw a modest increase in sales, as many customers began to better align their production with end demand, and stopped with the relentless declines in their inventories.

Revenues from our computer customers which comprised only 3% of our revenues, declined 44% year-over-year, and 17% sequentially. As you might remember, we have mentioned previously that we have significantly reduced our investment in ASS products for computers, given what we see is a very limited opportunity for high performance signal processing technology in the personal computer market.

So now I will turn the call over to Dave, who is going to review a little more detail on the financial results for Q2.

Dave Zinsner - *Analog Devices Inc. - VP, Finance, CFO*

Thanks, Jerry. I will start with gross margins. In Q2, gross margins were 55.1%, above plan for the quarter. Gross margins were down 590 basis points year-over-year, and 130 basis points sequentially, primarily as a result of utilization rates of approximately 40% in our internal fabs, as we further reduced inventories. As a result of lower utilization, inventories declined 16 million sequentially, and days of inventory declined from 141 days to 130 days.

These results were achieved despite a $7 million inventory build related to our ongoing fab consolidations, and a further meaningful drop in distribution inventory. Moving forward, we are still on track to complete our fab consolidations by the end of this fiscal year, which in aggregate should lead to an annualized decrease in cost of sales from current levels of approximately 65 million by the third quarter of fiscal 2010. We should begin to see the impact of these cost reductions in the first quarter of fiscal 2010, with the full savings benefits realized by the third quarter of fiscal 2010.

In the second quarter, operating expenses excluding restructuring were 192 million, down 8% from the prior quarter. In total, operating expenses were down $48 million, or 20% from the fourth quarter of fiscal 2008. Approximately 40%, or $20 million of the 48 million drop, is of a temporary nature. It is mainly related to a drop in variable compensation and forced time off. The remaining 60% of the savings are permanent reductions in labor and related expenses, and reductions in discretionary expenses.

Our goal is to retain a large portion of the savings and discretionary spending as revenues grow. We are also planning additional savings from actions already taken, but for which the benefits have not yet been realized. As well as from future infrastructure cost reductions throughout the Company.

In Q2, operating income, excluding restructuring charges, increased 14% from the prior quarter to $70 million, as operating expense management more than offset slightly lower gross margins on flat sales. Excluding restructuring charges, diluted EPS from continuing operations was $0.21, up 17% from the prior quarter. Higher operating income, and a better than planned tax rate of 18.8% drove higher net income. We expect our tax rate to be approximately 21% for the remainder of the fiscal year.

Cash flow from operations was 76 million, and Capital Expenditures were 12 million. Because our current level of internal capacity can support more than twice our current revenue level, we have significantly reduced capital spending plans for the year, down from 157 million last year, to an expected $60 million in 2009. The bulk of which is tied to our fab consolidations. We believe that in future years, our capital spending will be at similar levels to 2009. As a result, over time our annual depreciation which was $144 million in fiscal 2008, should begin to move closer to our expected 60 million capital spending rate. Since most of our capital spending is manufacturing related, this should be accretive to our gross margins.

Accounts Receivable decreased slightly from last quarter. DSO decreased to 44 days, and 100% of our customers are current to terms. These are impressive results, particularly in the context of the current credit environment. During Q2, we paid out $58 million in dividends, and this quarter our Board once again approved a $0.20 per share quarterly cash dividend. At current prices, our dividend yield is approximately 4%.

We ended the quarter with $1.3 billion in cash, and no debt. Although much of our cash is overseas, we continue to believe that our dividend is an important mechanism for returning value to our shareholders. We expect US cash flow to increase when industrial revenues recover, and as we realize the benefits of the Massachusetts fab consolidation. This consolidation should result in significantly increased US profits, and lower capital spending.

Even during this difficult economic cycle, our business continues to generate strong cash flow, as it has done for many years. We believe that as economic conditions improve, demand recovers, and we fully realize the benefits of our fundamentally lower cost structure, our cash flow will significantly increase, as will our earnings leverage.

With that, I will turn the call back to Jerry.

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

Thanks, Dave. The orders to ADI and to our distributors recovered significantly in Q2, as customer inventory reductions abated. Our book-to-bill ratio for Q2 is measured by end customer bookings, which were slightly above one for the first time since Q3 of 2008, and our Q3 opening backlog was up from last quarter.

In addition to order levels were stable throughout the second quarter, and have remained at these levels through the first two weeks in May. Nevertheless, lead times are short, and we are still receiving a very significant portion of new orders, at turns orders which gives us of course very limited visibility. So given all these factors, we are planning for our third quarter revenues to be approximately flat on a sequential basis.

We plan to continue to reduce inventories in Q3, and keep very tight control over operating costs. As a result we expect gross margins to be in the 54 to 55% region, and that will of course depend on the actual mix of business we ship, and what ultimately we decide to be the appropriate factory utilization through the quarter. Overall, pricing for our products remains stable.

We are planning for the operating expenses in Q2(Sic-see press release) to remain approximately flat sequentially, and of course, to gain significant operating leverage when growth does resume, and as Dave mentioned, we expect our tax rate to be approximately 21% for the balance of the year. As a result of all those things, we are planning for diluted earnings per share from continuing operations, to be approximately $0.17 to $0.19 in Q3.

So before we open up the call for questions, I just wanted to close with a few key points. Obviously, the last six months has been a difficult environment in which to operate a company, particularly companies like semiconductor companies, that have a large portion of their costs as fixed costs, however, ADI's business model has allowed us to remain solidly profitable, and continue to generate positive cash flow, despite the substantial short-term revenue declines that are a result of the economic chaos that is out there.

Today our balance sheet remains one of the strongest in the industry, and we are one of very few companies that we compete with, that has no net debt, as well as the opportunity for significant operating leverage, as revenues increase. This leverage will be driven by our much richer product mix, which is the result of having refocused ADI on more profitable and sustainable products and markets over the past 18 months, and a fundamentally lower expense structure, the result of actions that we have taken, to permanently reduce our infrastructure costs.

All these actions are designed to set us back on course towards our long term model of 30% operating margins, which we now expect to achieve at lower revenue levels than we previously expected. Strategic investment priorities within the Company are now very well defined, and our current portfolio and our competitive position are about the strongest they have been in many years. Very importantly our customers continue to view ADI as a technology leader, a reliable and trustworthy partner, and a financially stable supplier in a very chaotic environment.

Our employees around the world understand where we are headed, and despite all of the pain over the last few quarters, I believe we are as committed as ever, to ADI remaining one of the best technology companies around. And I think all that bodes very well for earnings growth and improved shareholder returns, as the economy recovers.

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

Thank you, Jerry, thank you, Dave. During today's Q&A period, we ask you to please limit yourself to one primary question and one follow-up question, and we will do our best to give you another opportunity to ask additional questions, if we have time remaining.

Operator? We are now ready for questions from our call participants.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Our first question comes from the line of Ross Seymour with Deutsche Bank.

Ross Seymore - *Deutsche Bank - Analyst*

Hi, guys, congratulations on the strong results. Just a question on the inventory commentary. You mentioned that you expect to bring down your own inventory in the next quarter. Your disty inventory dropped substantially. What are your plans in that, and what should we imply about your utilization going into the next quarter?

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

I think in general it is always hard to say what the distys are going to do with their inventory in advance, but I think our utilization is going to probably be very similar to what it was this quarter. We still have pretty healthy inventories, and we are going to try to get them down, to give us the maximum upside leverage, when business gets better.

Ross Seymore - *Deutsche Bank - Analyst*

And then the follow-up question on the OpEx side of things, you did a good job there too. How long should we think about you being able to keep the OpEx at roughly under $200 million, or if you wanted to add that 20 million that was temporary to the number, how should we think about OpEx growing versus revenues?

Dave Zinsner - *Analog Devices Inc. - VP, Finance, CFO*

Yes, first I think it is important to note that 20% that is temporary, a lot of that is highly dependent on actually profit increasing, so there is a sustainability to it that is pretty good, if the business doesn't improve. Having said that, our goal is really as we look at different revenue levels, take for example, 550 million in revenue as we get to that level, the last time we were at that revenue level, our operating margins were in the 20% range.

Our goal is to get meaningfully above that, and that is how we are looking at OpEx. So OpEx to some extent is dependent on kind of timing and where we are making our investments, and where the revenue is being generated, but I think it is safe to assume that our goal is really to expand operating margins, much beyond where we were the last time revenue was going up.

Ross Seymore - *Deutsche Bank - Analyst*

Just a clarification on that, the 48 million you said you cut in OpEx, was the percent, 20% of that was temporary, or 20 million out of the 48?

Dave Zinsner - *Analog Devices Inc. - VP, Finance, CFO*

I'm sorry, about 40% of the 48 million was temporary, I think I said 20%, I meant 40% and that roughly equates to the $20 million of temporary, but most of it is variable comp, which is highly dependent on how our operating margins do over time.

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

I think there is very little doubt, this is Jerry, that any increase to OpEx will be very carefully controlled no matter what happens on the upside, and we will certainly grow the revenue at quite a bit above any increase in OpEx, and as we said earlier, I think in Dave's comments, we still haven't even really realized all of the savings for actions we have already taken, as they come in over the next couple quarters, on both the OpEx line and the cost of goods line, so I think we have a lot of downward cost pressure in the Company, and the main reason is we expect to get to higher margins and lower revenues than we did last time, and that is sort of the mantra around the Company.

Ross Seymore - *Deutsche Bank - Analyst*

Great. Thank you.

Operator

Your next question comes from the line of John Barton with Cowen & Co.

John Barton - *Cowen and Co. - Analyst*

Thank you very much. Jerry, you went through a bunch of details of industrial end market, and basically highlighted the fact that your sales within the market contracted much more than the actual industrial market itself. You then kind of went on to say they are getting near trough inventories, and then you went on to say that you are poised to really bounce back when industrial spending comes back. If I am not misinterpreting your statements you were shipping into the industrial market at a fair rate below what they are truly consuming at today, even without a bounce back in spending, and if that assertion is correct, doesn't that mean that your sales could bounce back even before true industrial spending starts?

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

Well, it is always hard to be precise when you are talking about a business with tens of thousands of customers in every geography. I think what I was trying to communicate was while that is possible, if you want to be pessimistic about the world, which we all tend to be right now, or cautious, we are saying that at least the rate of decline certainly abated last quarter, I believe we are reaching the trough in these businesses, given the disconnect between what has happened in the markets, and what has happened with our sales, and all of our competitors sales in the industrial market, so there is not a lot more downside I think, for a lot of reasons including the ones that you mentioned there might be some upside, but it is too early to be optimistic about that. At least in the very short-term.

We would like to see a real fundamental change in the momentum in the market, before we really declare that it is going to get better, and there are machinations going on about inventory going up and inventory going down, but eventually, there is going to be end demand getting better, and that is the time where you really see that business getting better, so my comments in some way on the industrial market were more about, given the fact that the inventories are ahead of what is going on in the market, it is at least unlikely that it is not going to go down any more, and maybe the margin will be a little bounce or something, because of the abatement of the inventory reductions, but it is hard to tell.

John Barton - *Cowen and Co. - Analyst*

The Comm infrastructure end market, what are your thoughts on that as you look out over the next several months or quarters, obviously it has started to bounce back, do you think that will continue statistically?

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

Your question was about the communications infrastructure?

John Barton - *Cowen and Co. - Analyst*

That is correct.

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

Clearly it has been explosive in China. That has been well described by us, and I believe by many of our competitors, and other people that participate in that market. There are concerns out in the market that there is going to be a pause in China, while they absorb all of the stuff, but it is very hard to predict that far in advance. I think in the long term in China, there is going to be a huge buildout that is going to continue, and whether there is a pause in that market in the short-term, for a quarter or maybe a little bit longer, it is very, very hard to predict.

I think the infrastructure part of the market outside of China, is probably more predictable than in China right now, and if you look at the large infrastructure providers in Europe and the United States, they are still blasting ahead pretty well, so the uncertainty over the next quarter or two is probably in the Chinese infrastructure market, and there are a lot of different opinions on what might happen here in the short-term, but I would say very few different opinions of what is going to happen in that market over the longer term.

John Barton - *Cowen and Co. - Analyst*

Thank you very much.

Operator

Your next question comes from the line of Steve Smigie with Raymond James.

Steven Smigie - *Raymond James & Assoc. - Analyst*

Great. Thank you. I was wondering if you could comment a little bit on how much inventory you are thinking about taking out of the channel and internally here, and what gross margin might have looked like if you weren't taking that out?

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

You want to take a whack at that?

Dave Zinsner - *Analog Devices Inc. - VP, Finance, CFO*

So I would say our goal really is to get our inventory down to in the 110 days on our balance sheet. It looks as we look at inventory at disty, you never know, but it is pretty close to where I would consider historical levels have been, maybe it comes down a little bit more, but not much more.

It is tough to say, Steve, on utilization. Obviously when we were a fully utilized, or relatively utilized business model, we were running at 61% gross margins. We got a couple of things going in our favor now coming into the next cycle, our Limerick consolidation is now pretty much complete, and we will start seeing savings at the beginning of next year.

We have the Cambridge consolidation going on right now. That will be complete by the end of this fiscal year, and we expect to see savings the middle of next year, so there are at least a couple hundred basis points improvement from those consolidations, and the revenue starts to pick back up, we will start to see gross margin expansion just from the absorption side of things, so our goal is really to see if we were at 61% back at the last peak, that if we get up to those revenue levels at some point, that we are at least a couple hundred basis points above that.

Steven Smigie - *Raymond James & Assoc. - Analyst*

Okay, great. That was definitely the question I was looking for and answer to, but also specifically, in this quarter, if you weren't doing inventory reduction this quarter--?

Dave Zinsner - *Analog Devices Inc. - VP, Finance, CFO*

It is difficult to say. I couldn't even ballpark it.

Steven Smigie - *Raymond James & Assoc. - Analyst*

Okay.

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

I mean, I think it is probably fair to say that the lions share of the declines that we seen in the gross margin from the peak are about utilization, so I mean, there is nothing else going on with the mix that is very substantial.

If anything, the industrial mix is down quite a bit, which has really whacked the utilization hardest, since those are most of the products we build ourselves, so I think the real takeaway is that there is a lot of gross margin leverage in the system here, and we are not planning yet in Q3 to turn our production, because we are trying to work inventory down a little bit. We will have to sort of take another look at the end of third quarter, and decide what we do in fourth quarter and after the balance of the year, and that will really determine in the short-term what happens with the gross margins.

Steven Smigie - *Raymond James & Assoc. - Analyst*

Okay, and then just one last thing. Just following up, drawing conclusion from your comments there about what gross margin looks like several quarters out, and I know you mentioned you were looking to hit the 30% operating margin on lower revenues, but presumably that the operating margin will be quite a bit above 30% a few years out also, and so basically, is there some time maybe the next quarter or two where you would come out with a new operating model?

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

Well, I would say once the business starts definitively moving up, and there is real demand behind that as compared to supply issues, which are mostly driving the cycle right now, I mean I think we are working on that very hard. We have a lot of ideas on what that is, and how to get there, clearly some of the actions we have taken are behind that new model, but I think a little premature to communicate a new model when we are running below 15%, and the goal is 30.

As we start marching towards that goal, we will have a lot of updates on different model about that, but I think for now, I would try to keep the focus on let's keep moving it up. Let's build in a lot of leverage as the sales grow. Let's keep raising that every quarter, in terms of the margins, as business gets better, and then we will take a look at what the long term model is, as we start moving towards that objective.

Steven Smigie - *Raymond James & Assoc. - Analyst*

Great. I understand. Thanks, and nice quarter.

Operator

Your next question comes from the line of Uche Orji with UBS.

Uche Orji - *UBS - Analyst*

Thank you very much. Can I just ask you about some clarification as to one of the things you said in your closing remarks. You talked about the revenue level you need to achieve your 30% target model being less now than what you had expected. Are you able to give us some idea as to what those numbers are, in terms of what expectation was before, and what it is now?

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

Well, I mean I am not going to try to provide specificity on that right now. We are too far away from it, but I would say generically, we got up to 25 or 26% at 650, which was the peak quarter I guess that was Q4 of last year, and we think we can do a lot better than that at lower revenue levels, but I think it is all sort of premature to pick a revenue level, and say at that revenue level we will have this margin. I think we would like another quarter or so to see how the business unfolds, and then we will give you a little more guidance on that in the future.

Uche Orji - *UBS - Analyst*

Sure. Just another question. If I look at the guidance you have given to next quarter, should we be assuming that the end revenue mix should be similar to the quarter that just ended, and if not, where do you think based on what you have seen so far, should we expect to see the most surprise on the upside or on the downside?

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

Well, of course, that revenue target that we put out about flat, is obviously pluses and minuses to that that are possible. It is very hard to be precise when most of it is turns business, and the market is very volatile right now, so what we really communicated was the plan we are going to run the Company at, I think it is important to say the expense levels, and the way we are going to run the factories, is going to be somewhat independent of what the revenue levels are for the next quarter.

So I think as we generically think about the whole question of the expense levels and the revenue levels associated with that, it seems to me where there is the upside is probably that the inventory declines in the industrial business might continue to abate, and that might give us a little more upside.

We are expecting the consumer market to be a little bit better than it was seasonally, because that typically is what happens during the slow off season. On the risk side, we have the month of July which is a great unknown, and nobody can really predict what is going to happen in July, but typically July is a weak month but lately there is no typical year, because there are so many different things going on, and of course there is risk in the infrastructure part of the business in China, so when we look at the pluses and minuses, that is our product groups when they looked at all of the details of that, came up with a number plus or minus, that it is roughly flat, but how it actually turns out, I think we will have to wait until the end of the third quarter to see.

Uche Orji - *UBS - Analyst*

Just one last question please if I may. Jerry, can you just tell us now about what your strategic priorities are, beyond the taking inventory down and taking costs on the product side, are there areas where you still think that you need to emphasize a bit more, specifically Power Management and MEMS, can you tell me, what is [inaudible] for those two businesses now going forward? Thanks.

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

I am not sure I understood your question. Did you ask what our strategic priorities are for the MEMS and the Power business?

Uche Orji - *UBS - Analyst*

That is what I am asking, yes please.

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

Well, I think that as we said before, they have both been strategic priorities for the Company each for different reasons. On the Power side we have said that, because it really is the one category in the analog business that we haven't had much sales, and our customers really want us to be as they continue to contract the amount of vendors they want to do business in, we have put a lot of money into that business, and as I mentioned I think last quarter, despite all of the economic chaos, it looks like we are really beginning to get some traction on some products, and some customers in that business. It is been a long haul, but we are.

The MEMS business is a little bit different. The real strategic rationale for that business is that of course there are a lot of applications, that have a lot of applications in MEMS, increasingly that requires signal processing, so it is a great addendum to things we already do, but another I think an important rationale for that, is that it is hard to do, and not many people can do it, it takes 15 years to figure out how to do it, and it really does give us a real technology, that it is not likely we are going to have a lot of competition in, particularly among our traditional competitors.

So it really has a lot of applications, particularly in automotive applications, but increasingly industrial, and other applications, there is just a tremendous building enthusiasm for things that can sense motion, and it started out with accelerometers for cars, it is now moving to gyroscopes for cars, and many other applications, and behind every electronic stability control system, which is mandated pretty soon, there are going to be gyroscopes, and they are hard to do, believe me.

It has taken us years to figure out how to do it, so I think it is a compelling technology. We believe it is hard to replicate. We believe it goes hand-in-hand with many other technologies that we have in the Company, be they analog or DSP-like technologies and the customers, this is one of the business where the customers really drag us into it, because it really does change the end product, if you can figure out how to reliably and cost effectively sense motion, in many different dimensions.

So that is the rationale for each of those businesses. I think they both remain strategic priorities in the Company, and we are working to get more revenues and less cost, as we always are like in every business, but they are important priorities for us.

Uche Orji - *UBS - Analyst*

Okay, thank you very much.

Operator

Your next question comes from the line of Jim Covello with Goldman Sachs.

Jim Covello - *Goldman Sachs - Analyst*

Good afternoon. Thank you so much. First question within the consumer segment, I think you commented the digital still camera was strong. Can you talk about the trends in the other two key segments within consumer, I think that is digital TV and gaming?

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

Yes, well, the digital TV market took a little pause out there, a large pause, and that has been a very weak market over the last two quarters. Our internal forecast indicates that is going to get a little better this quarter. Time will tell if that really comes true. The AV market has also been extremely weak, and if we believe the forecast we are getting from some of those customers, at least on a seasonal basis, they are expecting some recovery, but we will have to wait and see how that happens.

Typically our third quarter, we begin to see the build up in that business, and if this year turns out to be like other years, we should see some increase in that business next quarter. But I think it would be very premature to say that the consumer market has turned, and everything is going to go great. I think until the unemployment rates start to abate, we aren't going to see big bulges in consumer spending, or at least that is the theory on which we are running our Company.

Jim Covello - *Goldman Sachs - Analyst*

Right. And if I could just ask a follow-up. Relative to the turns business that you are assuming this quarter versus historically that you would normally see in this quarter, about the same, a little more conservative?

Dave Zinsner - *Analog Devices Inc. - VP, Finance, CFO*

It is relatively similar to historical levels. Last quarter obviously we did better, and we had higher turns than we historically have, but the turns that we are building into our guidance this time around, are pretty close to what the historical levels are.

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

In this environment it is basically all turns, nobody wants to hold inventory. Nobody wants to give you any lead time, so I think that is the way the environment is going to stay for a while, at least for companies like ours.

Jim Covello - *Goldman Sachs - Analyst*

That makes sense. If I could get one more in there, do you guys consider the ISM Index a decent proxy for the overall, your overall industrial business? I know there are a lot of components to it, but do you think that is a fair way to think about it?

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

Yes, I would say that there are certainly trends that with some lag or lead, tend to line up, and we look at that very closely, and we have been encouraged by what we have seen over the last month or so, so time will tell. I think there is no doubt there is a correlation between those two. The question is the lag of that correlation to our business. But certainly, when you see that starting to move up, that can't be viewed as a bad sign.

Jim Covello - *Goldman Sachs - Analyst*

All right, thank you so much. Good luck.

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

Thanks.

Operator

Your next question comes from the line of John Pitzer with Credit Suisse.

John Pitzer - *Credit Suisse - Analyst*

Good afternoon guys. Thanks for taking my call, and congratulations Dave and Jerry. Dave, quickly, I think you said despite the inventory drawdown in the April quarter there was still 7 million of buffer inventory you built for the upcoming fab closure. Is that something that will reoccur this quarter, and I guess how much excess inventory or buffer inventory should we think about, relative to the fab consolidation?

Dave Zinsner - *Analog Devices Inc. - VP, Finance, CFO*

Well it is something for Cambridge it is likely to be repeated all the way up until we close Cambridge, which is at the end of the year. It is probably adding about 10 days to our inventory, the buffer builds.

John Pitzer - *Credit Suisse - Analyst*

And then Jerry, I apologize if I missed this, but help me understand the upside in the April quarter, relative to the down sort of 10% mid-point guidance. What really drove that? Was it Industrial not being as bad as you had first feared? Was it the

Communications being stronger than expected? Just help me understand within the April quarter, what drove the better than expected results on the top line, please?

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

I think the answer to that is yes. The industrial business was on a real collision course when we reported the numbers, and we had really no understanding of where that was headed. The Infrastructure business did a little bit better than we would have thought, even the consumer business did a little better than we feared, I would say, so I think just generally, the amount of inventory that customers were getting rid of, just abated at a faster rate than we feared, and that gave us some upside.

The 27% down year-over-year is not a great quarter. It just isn't as bad as we feared, is really the way to think about it, and I think it was in those areas where we did a little bit better.

John Pitzer - *Credit Suisse - Analyst*

And then if I could sneak one more quick one in. The Power Management market, given that is a much more fragmented market than the converter market, can you help me understand the margin profile you are kind of targeting that market, and you made the comment your customers are pulling you into that business. What do they see that you have, that they can't get elsewhere?

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

Well in some of the more commodity Power Management areas, where it is just really providing the function, and that five different people can do it, and so on, we have gravitated a large part of the R&D away from that part of the Power business, but we see tremendous opportunity in others, in the commodity part of the power business.

Industrial products and Infrastructure products, and even in some of the consumer products, where we can really do things, in terms of integrating power with signal processing, that is very hard for more Power Management centric companies, so the very fragmentation that you mentioned of the Power business, is what gives us a good chance to actually get some meaningful revenues, that may contract the margins in that business. I think if we stay out of the commodity parts of the Power Management business, and focus on the areas that I mentioned, I don't think there is much of a difference in the gross margins we can achieve, from what we achieved for other products that we sell into those particular markets.

John Pitzer - *Credit Suisse - Analyst*

Great. Thanks guys. I appreciate it.

Operator

Your next question comes from the line of Chris Danely with JPMorgan.

Chris Danely - *JPMorgan Chase & Co. - Analyst*

Thanks guys. Jerry, just a quick clarification. As I look at your growth end markets within the flat guidance, it sounds like you think the consumer and the PC end markets will be up, and the Communication and Industrial end markets will be down. Is that what we should imply?

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

I would say they are very, there are a fragmented answer to that question. I think there is some elements of each of those markets that you are saying will be down, that really we are not planning for them to be down.

There is part of the communications market which is the Chinese infrastructure market, that we will have to see how that goes. The rest of the Chinese, the rest of the infrastructure market I think remains pretty strong, as we see it. Many of the other Communications applications, over the networking stuff, some of the optical stuff, maybe even the handset stuff, might actually turn out to be a little bit better in the next quarter.

We expect the consumer market to be a little bit better. One of the major concerns is just what happens in the month of July overall, with July like our December when people shut down, and nobody did anything, and just everything went to zero for the month, then I think there are some risks to that. If July turns out to be a reasonable month, and there are no disasters, I think the estimate is probably in the mid-range of what is probably going to happen.

Chris Danely - *JPMorgan Chase & Co. - Analyst*

Thanks. That is helpful. And then in terms of your thoughts on just inventory versus demand out there, it sounds like you are thinking that the channel is going to reduce inventory again in your end markets, and maybe it is wait until next quarter, where your business starts tracking end demand, is that a correct statement?

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

Well what the channel does with our inventory doesn't affect our sales very much. Like more it affects our production levels, so we really don't know the answer to your question, Chris. We get orders every week from distributors, they get orders every week from the customers, we watch it very closely to see if there are any trends. The distributor inventory is down quite a bit over the last two quarters, so on the other hand, the turns are about flat.

Of course their sales are way down, so when the turns are about flat it is hard to predict which way they are going to apply pressure. If they believe the market is going to get stronger, the end of the year, and they are worried about shortages in the factories, and the like, I think they will start to add inventory. If it turns out that they don't believe that, they won't, so I think that they can probably give you a better picture of what they are going to do with their inventories, because we sure don't know.

Chris Danely - *JPMorgan Chase & Co. - Analyst*

I guess I was pinging you more on your end customers, or direct customers. Any words of wisdom for us on what you think their inventory trends are? Are they done working it down?

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

Well I guess we hear different stories from different customers, but I think generally, I mean the inventories came down pretty far, so what it really has to do with is are they really optimistic or pessimistic about the future, and there are some customers that basically keep singing the blues, and I think those customers will continue to bring the inventories down, and there are many other customers that actually now we are getting concerned about their inventory levels.

They are very low, and there are all of the reports coming out of Taiwan about foundry capacity, and so on, and they are getting a little nervous that they pushed this pretty hard, it is very interesting that this cycle, it is true that the reaction of customers to demand changes is about the most extreme we have ever seen. So customers this time were not going to make the mistake they made in 2001, and they reacted enormously quickly and severely to the changing outlook for their business.

The good news is that got a lot of inventory as a cycle quickly, and that is why I think when the demands, or the sentiment out there about the economy and what is going to happen gets better, I think the snapback will be good, but it is very hard to predict on as wide a customer base, what the average customer is going to do. I think we have customers in both camps.

Chris Danely - *JPMorgan Chase & Co. - Analyst*

Thanks a lot.

Operator

Your next question comes from the line of Craig Ellis with Caris & Company.

Craig Ellis - *Caris & Co. - Analyst*

Thanks for taking the question. Good job on the quarter guys. Dave, you mentioned the growing delta between your CapEx and depreciation. When do we start to see depreciation falling meaningfully? Is that the middle of next year after the two fabs are shut down, or is it later than that?

Dave Zinsner - *Analog Devices Inc. - VP, Finance, CFO*

Actually depreciation will have a pretty decent fall next quarter, but you really won't see the savings for the P&L, because most of that gets hung onto the balance sheet until the first quarter of next year, so there will be kind of a step function decline I think in the next couple of quarters, but then after that, our best estimation is that it is going to kind of trail downward over the next five years or so, because that is generally what we put the capital on the balance sheet at.

Craig Ellis - *Caris & Co. - Analyst*

Okay, and then more of a revenue question for Jerry. You have talked about on this call and in prior calls, the growth in the industrials business in China. Can you help us understand how big that business is, relative to your overall industrials business, and how should we think about the growth characteristics of that business versus the broader industrials over the next couple of years?

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

Well I don't have the exact numbers in front of us. We could dig those out for you, Chris, but I would say generally, it is not surprising that there is a huge industrialization that has been going on in China, when we talk to the large industrial customers over there, is that the government is really pumping an awful lot of money into new factories for obvious reasons.

Now eventually, those factories have to produce stuff that sells at the beginning in China, but ultimately they have got to export stuff to justify all of that, and they are making a bet that when the economy starts turning in other locations, that the exports out of China will go up very dramatically, so I think initially, mostly, it is to support Chinese consumption, but eventually it is going to wind up supporting America and European and Japanese and other consumptions, so I don't think there is any doubt that we have put in a tremendous amount of focus to building our industrial and other businesses in China. Of course, we really believe it is going to be like the United States was 40 or 50 years ago, where there was just the industrial revolution here, and that business was an enormously fast growing business, and so we have put in a fair amount of infrastructure into China.

The early signs are that our brand in China, which is a very good leading indicator of our industrial sales across many, many companies, is very strong in China. We have a great team over there, and we have good leadership there. We have a lot of good engineers over there that actually design some of the products, and we have good sales people and applications people over there, so I think China is not only going to be the home of some of the very high volume commoditized products, but it is also going to provide a great opportunity for those that get in early, into the base of what will turn out to be tens of thousands of industrial customers in China.

It is not going to be any different than the United States that way, or Europe. It is just going to be about 40 or 50 years later than in the US. So that is an important business. If you want to try to quantify that any more, we would have to dig into the data, which I don't have now in front of me, but I would say on a absolute basis, it is not a very significant part of our industrial business, but certainly the percentage of our industrial business as it is has been climbing, as that business has been growing, and the rest of it has been contracting.

Craig Ellis - *Caris & Co. - Analyst*

Okay that is helpful. Can I sneak in one more?

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

Sure.

Craig Ellis - *Caris & Co. - Analyst*

I was just interested you mentioned the converter market share data as we have gone through the downturn, have you noticed any change in competitive dynamics in your core converter and amplifier businesses? Thank you.

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

Well I think everybody wants it. That is not a big change in this part of the cycle, so I think there is competition out there. There is always competition. Always has been competition, so our job is just to continue the rate of innovation. We have a very dominant brand with the largest consumers of converter products, and we have done a pretty good job in analog of doing that, despite all of the competition over the last couple of years, so our job is to make sure we don't take our eye off that ball, since those are one of the most important things we do in analog so, so far so good.

Believe me, we keep enormous pressure on making sure that our technology is really strong, the customers know it, the sales guys sell it, and I think there are a lot of people that find it hard to believe that in a market that size with all of the competition we have been able to do as well as we have over the past five years in that business, so we are trying hard not to get complacent about that, but it is an important part of the R&D that we put into the Company, and it is a very, very important part of our competitive advantage.

Craig Ellis - *Caris & Co. - Analyst*

Thanks, guys.

Operator

Your next question comes from the line of David Wu with Global Crown.

David Wu - *Global Crown Capital - Analyst*

Hi. Dave, maybe you could help me with this. Once you consolidated two fabs in the first quarter fiscal 2010, how much does your manufacturing cost decline? Do you get it all at once, or do you have to spread over two consecutive quarters, and won't get the full amount until Q2?

Dave Zinsner - *Analog Devices Inc. - VP, Finance, CFO*

Actually we don't get the full amount until the third quarter, but the reason is to more to do with how the inventory gets digested, so we have actually completed the Limerick consolidation for the most part, so from a cash flow basis, we are already seeing savings but but that inventory has to get digested through the system, and that won't happen until the first quarter of 2010, so that is roughly about 6 million a quarter, or $25 million a year, on an annualized basis.

Then the Cambridge consolidation with Wilmington happens at the end of this year, and we will start seeing cash flow benefit of that at the beginning of next year, however because we will build some inventory obviously on that, and that has to get digested, our expectation is that will happen in the first two quarters of fiscal 2010, and so the new inventory at new costs, excluding the expenses associated with Cambridge, will start to be realized through the P&L in the third quarter of 2010, that is roughly about 10 million a quarter, or about $40 million on an annualized basis, so by the third quarter of 2010, the expectation is that we are at the 65 million of annualized savings run rate.

David Wu - *Global Crown Capital - Analyst*

The 6 million would be achieved by what, the second quarter?

Dave Zinsner - *Analog Devices Inc. - VP, Finance, CFO*

The first quarter of 2010.

David Wu - *Global Crown Capital - Analyst*

So 6 million, and then 16 million by the third quarter?

Dave Zinsner - *Analog Devices Inc. - VP, Finance, CFO*

Right.

David Wu - *Global Crown Capital - Analyst*

Okay, the third question I have, is really regarding this utilization rate. Once you consolidate your two fabs, does it automatically move higher, from the 40% rate that you have currently?

Dave Zinsner - *Analog Devices Inc. - VP, Finance, CFO*

Yes, we have more capacity than we need. We are eliminating some of that capacity so the utilization rate does improve, correct.

David Wu - *Global Crown Capital - Analyst*

Would it jump 10 points or 15 points, or something like that?

Dave Zinsner - *Analog Devices Inc. - VP, Finance, CFO*

To hazard a guess, I think it is about 10 points that it jumps.

David Wu - *Global Crown Capital - Analyst*

Okay, thank you.

Operator

Your next question comes from the line of Doug Freedman with Broadpoint.

Doug Freedman - *Broadpoint AmTech - Analyst*

Great. Thanks guys for taking my question. A bunch have been asked and answered, but can you spend a little bit of time talking about this cycle, and what you are expecting to see from an ASP trend standpoint? Are there any early signs of aggressive behavior from your competitors?

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

Well there are always competitors that are a little erratic on the pricing. We have lived with that for many, many years, but it is interesting when you look at ADI. Our average selling price which is made up of many, many different customers, many markets, many products, in many geographies, in many currencies, our average selling price hasn't moved very much, so there is always competitive pressure. We have good competitors, some of them are very aggressive on price, but overall our average selling price has been reasonably flat for quite a while.

And on a particular product, the average selling prices typically go down as the products get older, and then ones that get really old go back up, so in the analog business that is just the way it happens when some of those products have 20-year life cycles, but there were instances where we have competition, and they quote a lower price, and sometimes we react to it and sometimes we don't, and sometimes we have a better product we can sell them at a lower price than the old product we sold them, so that is just the nature of this business, but I don't see any alarming trends, that are significantly reducing our average selling price anyplace really in the market. We always have aggressive competitors. There was some that would think were an aggressive competitor to other peoples business that are out there, so it really depends on where you sit, what product areas you are in.

Doug Freedman - *Broadpoint AmTech - Analyst*

Great. Fair point. Do you think you could compare your July quarter guidance to your April quarter guidance, and what level of fear you are sort of pricing into your guidance, because clearly you said you were very concerned entering the present quarter that you just put up, and you are still sort of echoing a level of concern. Could you sort of calibrate us on how that has changed?

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

Well I think it is a little bit less concern than last quarter. Last quarter when we put the guidance out, when you have a downward spiral, it is always hard to predict the rate of that spiral, whether it is going to abate or accelerate. I think the thing that has been encouraging to a bunch of pessimists like us, are that the weekly order rates have been remarkably consistent for about three months now, and when the rates are consistent, you aren't seeing rates that are 40 or 50% different every week. It gives you a little more confidence that there as a broad customer base out there that has sort of calibrated their world at a certain level, so I think there are always ups and downs in that, but certainly, the stability in the business we have seen, gives us a little bit more confidence than when you are in a downward spiral.

I think having said that, there is still a lot of uncertainty out there, and we could have put out a large range, and said it might be down some, it might be up some, and everybody would have put the flat number there anyhow, so we just sort of said that is about the plan for the quarter, and as you said there is still uncertainty out there. I wouldn't in any way say that plan is a slam dunk. I don't think it is a sand bag plan. I don't think on the other hand, at least if I listen to our sales guys and our product guys, I don't think any of them are intending a disaster out there, but plus or minus a few percent, it is always very hard to call.

Doug Freedman - *Broadpoint AmTech - Analyst*

Great. Thank you. And congratulations on the nice execution in the quarter.

Operator

Your next question comes from the line of Terence Whalen with Citi.

Terence Whalen - *Citigroup - Analyst*

Thanks for fitting me in. I have two questions. The first is longer term, and the second is a little bit more near term. The first one would be with regard to gross margin. Given that we are taking about 300 basis points plus out of the gross margin from the COGS reductions of the Limerick and Massachusetts fabs, and also based on lower depreciation, Dave, looking out several years, assuming you get back to a 2.5 billion annual run rate, would the gross margin level be somewhere above 65% then?

Dave Zinsner - *Analog Devices Inc. - VP, Finance, CFO*

I think it is tough to call based on mix. I mean what we know is that the last time we were at the 650 level, we were at 61% gross margins. We feel pretty confident that we could do better than that . The question of how much I think is really dependent on mix.

We got obviously the depreciation going in our favor, some of which is coming from the consolidations, but some of it is coming from slower capital spending. We also have the consolidations which takes out fixed cost outside of depreciation, so we feel like we have got a lot of momentum going in our favor for gross margins. Mix will ultimately play a factor in that, and our belief is that we can get well above 61, I don't know exactly what level we will ultimately

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

I think the way to think about it is again, we are running 55, so let's calibrate the world on that, and we have put in a lot of programs, to fundamentally reduce the cost of good sold for Analog Devices. Most of those are these fab consolidations, these other things that we have done to fundamentally reduce the cost structure.

I think that as we get closer, and we start seeing sequential increases in the gross margin line, rather than sequential decreases as we have seen, I think we can be a lot more thoughtful and accurate about what actual gross margin we could achieve, I think what we are really trying to do and what we have been trying to do is start putting up quarters when business gets better where gross margins go up, the OpEx ratios go down, and we have got a lot of leverage on the sales as they increase. I think trying to pin down the specifics of that when we are at 55% gross margin, and 15% operating profit is very, very hard to do.

Terence Whalen - *Citigroup - Analyst*

Okay.

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

So I think each quarter as we get more confidence, all we can really do, is to tell you the things we have done, and what we think the cost savings are as a result of that. Those are things that are under our control that we know. The rest of it we will just have to wait and see how it goes, and what we are trying to build is a model here with extremely high leverage. That is the takeaway.

Terence Whalen - *Citigroup - Analyst*

Understood, and then the follow-up is a near term question, with regard to the monthly order linearity in the July quarter. It sounds like you're staying with a little bit higher backlog for the July quarter than you had started for the April quarter, and implied in that maybe is a little bit of tapering in the month of July orders. My question, Jerry, is what are the swing factors that will determine whether July does taper off, and might be expected for a flat number, or what would be the potential source of upside in your view, based on what you see now potentially in July, would it be coming from better Comms infrastructure, coming from some a seasonal industrial pick up, or would it be the consumer and computing businesses? That is it. Thanks.

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

The third quarter will really depend more than any major trends in any of the segments, which I think are relatively small relative to our sales. It will depend on just how customers feel about their world. If we get out to July and ordered everybody is still thinking the world is coming unglued, and the like, I think July could turn out to be a bad month, and we will be on the wrong side of this, and I think if it turns out that as we get out to July and people are believing that the end of the year is going to be good, that there is reason for the economies to believe they are going to get a little bit better, and customers a little less afraid, credit eases up, and you don't keep hearing about 600,000 jobs a month being lost in the US, and so on, and people get a little more confident, I think we could get better than typical seasonality in July, because I think people are concerned about how low the inventories are.

So I think we are not going to know that until July, and I think most of it at least in my view, other than some small ups and downs between one market segment or another, I think it will be mostly dependent on sentiment out there, and that is the thing that is so hard to predict.

Terence Whalen - *Citigroup - Analyst*

Much appreciated, great job on the quarter.

Operator

Your final question will come from the line of Sumit Dhanda with Bank of America.

Sumit Dhanda - *BAS-ML - Analyst*

Yes, hi. Dave, a question for you in terms of the reduction in infrastructure expenses, the plan to reduce those expenses, can you tell us what the expense of the benefit from that will be, and how that will flow through in coming quarters?

Dave Zinsner - *Analog Devices Inc. - VP, Finance, CFO*

Well, some of which we actually have taken action on, and you are seeing savings in the drop we have gotten to today, the $192 million level, there is some benefit coming in the next few quarters, it is of a few million dollars per quarter kind of range, from what we have talked about to date, we have an active process of looking at infrastructure expenses, and identifying better and less expensive ways to go about delivering our infrastructure services to the Company, and over the next couple of quarters I think we will identify more opportunities but at this point, we are unable to quantify it.

I think getting back to what Jerry's comment was at the very beginning, the OpEx is at 192 million, and our goal is to really constrain that a lot while revenues are flat, and as things return to growth which we assume they will at some point, is to really constrain the growth on OpEx, so that it is much slower than the growth on the revenue side, and so we see a lot of leverage.

Sumit Dhanda - *BAS-ML - Analyst*

One question for you Jerry. I don't know if you explicitly addressed this on the call, but given that you are reporting a month after a lot of other companies, is it clear to you there's going to be a pause in the China 3G buildout in the July quarter? Is that how you are planning for business, or are the lead times still short that you don't know for sure?

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

Well we never know for sure. I think that we know sort of that we listen to a lot of our competitors, who have talked about that a little bit, when you talk to the large companies in China, there are sort of differences of opinion of their views on what is going to happen this quarter.

A lot of these products are very short delivery items, so we don't really know, but I would say generically we are planning for a little bit of weakness on the Chinese side of the infrastructure market, and not so much weakness on the European and US side of the infrastructure market, but built into our assumptions is probably certainly the rate of growth is going to pause for a while there, and it is possible it could decline sequentially quarter-to-quarter, but I think the important takeaway for us on that business, is if it is a pause, it is not going to be a very long one.

There is a tremendous buildout that is still ahead of us, and whenever you see a large increase in a business, as we have seen in the Chinese infrastructure business, it wouldn't be surprising to see a pause, although there are lots of different opinions about that, but the direct answer to your question, is our assumptions are that is going to decline a little bit in the third quarter, although not a tremendous amount.

Sumit Dhanda - *BAS-ML - Analyst*

And just so that I am clear it is an assumption, or is that based on actual feedback from [inaudible]?

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

I think it is a combination of both.

Sumit Dhanda - *BAS-ML - Analyst*

All right, thank you.

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

Okay, that wraps up the questions. Thank you very much for joining us today, and we look forward to talking with all of you again during the Q3 conference call, which is scheduled for August 18, 2009. Have a great day.

Operator

Thank you for calling in for the Analog Device's conference call. You may now disconnect.