

ANALOG DEVICES INC  
Form 10-Q  
February 17, 2015

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended January 31, 2015

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission File No. 1-7819

Analog Devices, Inc.  
(Exact name of registrant as specified in its charter)

Massachusetts  
(State or other jurisdiction of incorporation or organization)

04-2348234  
(I.R.S. Employer Identification No.)

One Technology Way, Norwood, MA  
(Address of principal executive offices)  
(781) 329-4700

02062-9106  
(Zip Code)

(Registrant's telephone number, including area code)  
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES  NO

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer

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

Edgar Filing: ANALOG DEVICES INC - Form 10-Q

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

As of January 31, 2015 there were 311,627,385 shares of common stock of the registrant, \$0.16 2/3 par value per share, outstanding.

---

## PART I - FINANCIAL INFORMATION

## ITEM 1. Financial Statements

ANALOG DEVICES, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(thousands, except per share amounts)

|   | Three Months Ended  |                     |
|---|---------------------|---------------------|
|   | January 31,<br>2015 | February 1,<br>2014 |
| Revenue   | \$771,986           | \$628,238           |
| Cost of sales (1)   | 268,379             | 219,120             |
| Gross margin  | 503,607             | 409,118             |
| Operating expenses:                                       |                     |                     |
| Research and development (1)                              | 151,706             | 128,591             |
| Selling, marketing, general and administrative (1)        | 120,171             | 98,178              |
| Amortization of intangibles                               | 23,796              | 55                  |
| Special charges   | —                   | 2,685               |
|   | 295,673             | 229,509             |
| Operating income  | 207,934             | 179,609             |
| Nonoperating expense (income):                            |                     |                     |
| Interest expense  | 6,656               | 6,571               |
| Interest income   | (2,044)             | (3,284)             |
| Other, net  | 2,552               | 431                 |
|   | 7,164               | 3,718               |
| Income before income taxes                                | 200,770             | 175,891             |
| Provision for income taxes                                | 22,013              | 23,305              |
| Net income  | \$178,757           | \$152,586           |
| Shares used to compute earnings per share – basic         | 311,274             | 312,286             |
| Shares used to compute earnings per share – diluted       | 315,684             | 318,017             |
| Basic earnings per share                                  | \$0.57              | \$0.49              |
| Diluted earnings per share                                | \$0.57              | \$0.48              |
| Dividends declared and paid per share                     | \$0.37              | \$0.34              |
| (1) Includes stock-based compensation expense as follows: |                     |                     |
| Cost of sales   | \$2,392             | \$1,557             |
| Research and development                                  | \$6,874             | \$4,859             |
| Selling, marketing, general and administrative            | \$11,105            | \$4,991             |

See accompanying notes.

ANALOG DEVICES, INC.  
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
 (Unaudited)  
 (thousands)

|   | Three Months Ended  |                     |
|---|---------------------|---------------------|
|   | January 31,<br>2015 | February 1,<br>2014 |
| Net income  | \$178,757           | \$152,586           |
| Foreign currency translation adjustments  | (8,863              | ) (740              |
| Change in fair value of available-for-sale securities classified as short-term investments (net of taxes of \$28 and \$33, respectively)  | (306                | ) (168              |
| Change in fair value of derivative instruments designated as cash flow hedges (net of taxes of \$14,892 and \$329, respectively)  | (31,826             | ) (2,077            |
| Changes in pension plans including prior service cost, transition obligation, net actuarial loss and foreign currency translation adjustments, (net of taxes of \$282 and \$162 respectively) | 17,100              | 594                 |
| Other comprehensive loss  | (23,895             | ) (2,391            |
| Comprehensive income  | \$154,862           | \$150,195           |

See accompanying notes.

ANALOG DEVICES, INC.  
 CONDENSED CONSOLIDATED BALANCE SHEETS  
 (Unaudited)  
 (thousands, except per share amounts)

|  | January 31, 2015 | November 1,<br>2014 |
|--|------------------|---------------------|
| <b>ASSETS</b>  |                  |                     |
| Current Assets   |                  |                     |
| Cash and cash equivalents  | \$ 650,202       | \$ 569,233          |
| Short-term investments   | 2,223,079        | 2,297,235           |
| Accounts receivable, net   | 402,350          | 396,605             |
| Inventories (1)  | 367,238          | 367,927             |
| Deferred tax assets  | 96,590           | 128,934             |
| Prepaid income tax   | 16,725           | 6,633               |
| Prepaid expenses and other current assets                                      | 46,853           | 45,319              |
| Total current assets   | 3,803,037        | 3,811,886           |
| Property, Plant and Equipment, at Cost   |                  |                     |
| Land and buildings   | 498,998          | 495,738             |
| Machinery and equipment  | 1,895,707        | 1,880,351           |
| Office equipment   | 51,301           | 51,477              |
| Leasehold improvements   | 51,478           | 50,782              |
|  | 2,497,484        | 2,478,348           |
| Less accumulated depreciation and amortization                                 | 1,885,012        | 1,855,926           |
| Net property, plant and equipment  | 612,472          | 622,422             |
| Other Assets   |                  |                     |
| Deferred compensation plan investments   | 21,286           | 21,110              |
| Other investments  | 13,703           | 13,397              |
| Goodwill   | 1,641,793        | 1,642,438           |
| Intangible assets, net   | 646,400          | 671,402             |
| Deferred tax assets  | 34,365           | 27,249              |
| Other assets   | 48,100           | 49,786              |
| Total other assets   | 2,405,647        | 2,425,382           |
|  | \$ 6,821,156     | \$ 6,859,690        |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>                                    |                  |                     |
| Current Liabilities  |                  |                     |
| Accounts payable   | \$ 123,456       | \$ 138,967          |
| Deferred income on shipments to distributors, net                              | 278,228          | 278,435             |
| Income taxes payable   | 17,683           | 62,770              |
| Accrued liabilities  | 213,542          | 228,884             |
| Total current liabilities  | 632,909          | 709,056             |
| Non-current liabilities  |                  |                     |
| Long-term debt   | 872,926          | 872,789             |
| Deferred income taxes  | 241,367          | 235,791             |
| Deferred compensation plan liability   | 21,286           | 21,110              |
| Other non-current liabilities  | 246,458          | 263,047             |
| Total non-current liabilities  | 1,382,037        | 1,392,737           |
| Commitments and contingencies  |                  |                     |
| Shareholders' Equity   |                  |                     |
| Preferred stock, \$1.00 par value, 471,934 shares authorized, none outstanding | —                | —                   |

Edgar Filing: ANALOG DEVICES INC - Form 10-Q

|   |             |              |
|---|-------------|--------------|
| Common stock, \$0.16 2/3 par value, 1,200,000,000 shares authorized,<br>311,627,385 shares issued and outstanding (311,204,926 on November 1, 2014) | 51,939      | 51,869       |
| Capital in excess of par value  | 651,523     | 643,058      |
| Retained earnings   | 4,295,169   | 4,231,496    |
| Accumulated other comprehensive loss  | (192,421    | ) (168,526 ) |
| Total shareholders' equity  | 4,806,210   | 4,757,897    |
|   | \$6,821,156 | \$6,859,690  |

(1) Includes \$3,176 and \$3,291 related to stock-based compensation at January 31, 2015 and November 1, 2014, respectively.

See accompanying notes.

3

---

ANALOG DEVICES, INC.  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 (Unaudited)  
 (thousands)

|   | Three Months Ended |                  |
|---|--------------------|------------------|
|   | January 31, 2015   | February 1, 2014 |
| Cash flows from operating activities:                                   |                    |                  |
| Net income  | \$ 178,757         | \$ 152,586       |
| Adjustments to reconcile net income to net cash provided by operations: |                    |                  |
| Depreciation  | 31,773             | 27,335           |
| Amortization of intangibles   | 24,739             | 55               |
| Stock-based compensation expense  | 20,371             | 11,407           |
| Excess tax benefit-stock options  | (4,635)            | (7,604)          |
| Deferred income taxes   | (2,915)            | (2,993)          |
| Other non-cash activity   | 3,743              | 1,417            |
| Changes in operating assets and liabilities                             | (83,180)           | (24,730)         |
| Total adjustments   | (10,104)           | 4,887            |
| Net cash provided by operating activities                               | 168,653            | 157,473          |
| Cash flows from investing activities:                                   |                    |                  |
| Purchases of short-term available-for-sale investments                  | (1,211,021)        | (2,234,996)      |
| Maturities of short-term available-for-sale investments                 | 701,149            | 2,029,319        |
| Sales of short-term available-for-sale investments                      | 583,750            | 212,819          |
| Additions to property, plant and equipment                              | (23,760)           | (48,123)         |
| Payments for acquisitions, net of cash acquired                         | (118)              | —                |
| Increase in other assets  | (3,729)            | (3,342)          |
| Net cash provided by (used for) investing activities                    | 46,271             | (44,323)         |
| Cash flows from financing activities:                                   |                    |                  |
| Dividend payments to shareholders                                       | (115,084)          | (106,024)        |
| Repurchase of common stock  | (59,636)           | (88,963)         |
| Proceeds from employee stock plans                                      | 42,793             | 79,600           |
| Contingent consideration payment  | —                  | (1,773)          |
| Changes in other financing activities                                   | (3,988)            | 22,248           |
| Excess tax benefit-stock options  | 4,635              | 7,604            |
| Net cash used for financing activities                                  | (131,280)          | (87,308)         |
| Effect of exchange rate changes on cash                                 | (2,675)            | (704)            |
| Net increase in cash and cash equivalents                               | 80,969             | 25,138           |
| Cash and cash equivalents at beginning of period                        | 569,233            | 392,089          |
| Cash and cash equivalents at end of period                              | \$ 650,202         | \$ 417,227       |
| See accompanying notes.   |                    |                  |

ANALOG DEVICES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE MONTHS ENDED JANUARY 31, 2015

(all tabular amounts in thousands except per share amounts and percentages)

Note 1 – Basis of Presentation

In the opinion of management, the information furnished in the accompanying condensed consolidated financial statements reflects all normal recurring adjustments that are necessary to fairly state the results for these interim periods and should be read in conjunction with Analog Devices, Inc.'s (the Company) Annual Report on Form 10-K for the fiscal year ended November 1, 2014 and related notes. The results of operations for the interim periods shown in this report are not necessarily indicative of the results that may be expected for the fiscal year ending October 31, 2015 or any future period.

On July 22, 2014, the Company completed its acquisition of Hittite Microwave Corporation (Hittite), a company that designs and develops high performance integrated circuits, modules, subsystems and instrumentation for radio frequency, microwave and millimeterwave applications. The total consideration paid to acquire Hittite was approximately \$2.4 billion, financed through a combination of existing cash on hand and a 90-day term loan facility of \$2.0 billion. The acquisition of Hittite is referred to as the Acquisition. See Note 16, Acquisitions, of these Notes to Condensed Consolidated Financial Statements for further discussion related to the Acquisition.

Certain amounts reported in previous periods have been reclassified to conform to the fiscal 2015 presentation. Such reclassified amounts are immaterial. The Company has a 52-53 week fiscal year that ends on the Saturday closest to the last day in October. Fiscal 2015 and fiscal 2014 are 52-week fiscal years.

Note 2 – Revenue Recognition

Revenue from product sales to customers is generally recognized when title passes, which is upon shipment in the U.S. and for certain foreign countries. For other foreign countries, title passes subsequent to product shipment, ordinarily within a week of shipment. Accordingly, the Company defers the revenue recognized relating to these other foreign countries until title has passed. For multiple element arrangements, the Company allocates arrangement consideration among the elements based on the relative fair values of those elements as determined using vendor-specific objective evidence or third-party evidence. The Company uses its best estimate of selling price to allocate arrangement consideration between the deliverables in cases where neither vendor-specific objective evidence nor third-party evidence is available. A reserve for sales returns and allowances for customers is recorded based on historical experience or specific identification of an event necessitating a reserve.

Revenue from contracts with the United States government, government prime contractors and some commercial customers is generally recorded on a percentage of completion basis using either units delivered or costs incurred as the measurement basis for progress towards completion. The output measure is used to measure results directly and is generally the best measure of progress toward completion in circumstances in which a reliable measure of output can be established. Estimated revenue in excess of amounts billed is reported as unbilled receivables. Contract accounting requires judgment in estimating costs and assumptions related to technical issues and delivery schedule. Contract costs include material, subcontract costs, labor and an allocation of indirect costs. The estimation of costs at completion of a contract is subject to numerous variables involving contract costs and estimates as to the length of time to complete the contract. Changes in contract performance, estimated gross margin, including the impact of final contract settlements, and estimated losses are recognized in the period in which the changes or losses are determined.

In all regions of the world, the Company defers revenue and the related cost of sales on shipments to distributors until the distributors resell the products to their customers. As a result, the Company's revenue fully reflects end customer purchases and is not impacted by distributor inventory levels. Sales to distributors are made under agreements that allow distributors to receive price-adjustment credits, as discussed below, and to return qualifying products for credit, as determined by the Company, in order to reduce the amounts of slow-moving, discontinued or obsolete product from their inventory. These agreements limit such returns to a certain percentage of the value of the Company's shipments to that distributor during the prior quarter. In addition, distributors are allowed to return unsold products if the Company



terminates the relationship with the distributor.

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

Distributors are also granted price-adjustment credits in the event of a price decrease subsequent to the date the product was shipped and billed to the distributor. Generally, the Company will provide a credit equal to the difference between the price paid by the distributor (less any prior credits on such products) and the new price for the product multiplied by the quantity of the specific product in the distributor's inventory at the time of the price decrease. Given the uncertainties associated with the levels of price-adjustment credits to be granted to distributors, the sales price to the distributor is not fixed or determinable until the distributor resells the products to their customers. Therefore, the Company defers revenue recognition from sales to distributors until the distributors have sold the products to their customers.

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

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

As of January 31, 2015 and November 1, 2014, the Company had gross deferred revenue of \$348.2 million and \$349.7 million, respectively, and gross deferred cost of sales of \$70.0 million and \$71.3 million, respectively.

Deferred income on shipments to distributors remained flat in the first three months of fiscal 2015 as distributor sales to end customers offset product shipments into the channel during the first quarter of fiscal 2015.

The Company generally offers a twelve-month warranty for its products. The Company's warranty policy provides for replacement of defective products. Specific accruals are recorded for known product warranty issues. Product warranty expenses during each of the three-month periods ended January 31, 2015 and February 1, 2014 were not material.

### Note 3 – Stock-Based Compensation

Stock-based compensation is measured at the grant date based on the grant-date fair value of the awards ultimately expected to vest, and is recognized as an expense on a straight-line basis over the vesting period, which is generally five years for stock options and three years for restricted stock units. In addition to restricted stock units with a service condition, the Company grants restricted stock units with both a market condition and a service condition (market-based restricted stock units). The number of shares of the Company's common stock to be issued upon vesting of market-based restricted stock units will range from 0% to 200% of the target amount, based on the comparison of the Company's total shareholder return (TSR) to the median TSR of a specified peer group over a three-year period. TSR is a measure of stock price appreciation plus any dividends paid during the performance period. Determining the amount of stock-based compensation to be recorded for stock options and market-based restricted stock units requires the Company to develop estimates to calculate the grant-date fair value of awards.

**Modification of Awards** — The Company has from time to time modified the vesting terms of its equity awards to employees and directors. The modifications made to the Company's equity awards in the first three months of fiscal 2015 or 2014 did not result in significant incremental compensation costs, either individually or in the aggregate.

**Grant-Date Fair Value** — The Company uses the Black-Scholes valuation model to calculate the grant-date fair value of stock option awards and the Monte Carlo simulation model to calculate the grant-date fair value of market-based restricted stock units. The use of these valuation models requires the Company to make estimates and assumptions, such as expected volatility, expected term, risk-free interest rate, expected dividend yield and forfeiture rates. The

grant-date fair value of restricted stock units with only a service condition represents the value of the Company's common stock on the date of grant, reduced by the present value of dividends expected to be paid on the Company's common stock prior to vesting.

Information pertaining to the Company's stock option awards and the related estimated weighted-average assumptions to calculate the fair value of stock options using the Black-Scholes valuation model granted during the three-month periods ended January 31, 2015 and February 1, 2014 are as follows:

6

---

|   | Three Months Ended |                  |   |
|---|--------------------|------------------|---|
|   | January 31, 2015   | February 1, 2014 |   |
| Stock Options                             |                    |                  |   |
| Options granted (in thousands)            | 55                 | 16               |   |
| Weighted-average exercise price           | \$51.23            | \$48.97          |   |
| Weighted-average grant-date fair value    | \$7.28             | \$7.06           |   |
| Assumptions:                              |                    |                  |   |
| Weighted-average expected volatility      | 23.5%              | 23.0             | % |
| Weighted-average expected term (in years) | 5.3                | 5.4              |   |
| Weighted-average risk-free interest rate  | 1.6                | % 1.6            | % |
| Weighted-average expected dividend yield  | 2.9                | % 2.7            | % |

The Company utilizes the Monte Carlo simulation valuation model to value market-based restricted stock units. The Monte Carlo simulation model utilizes multiple input variables that determine the probability of satisfying the performance conditions stipulated in the award grant and calculates the fair market value for the market-based restricted stock units granted. The Monte Carlo simulation model also uses stock price volatility and other variables to estimate the probability of satisfying the performance conditions, including the possibility that the market condition may not be satisfied, and the resulting fair value of the award. Market-based restricted stock units were not granted during the three-month periods ended January 31, 2015 or February 1, 2014.

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

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

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

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

#### Stock-Based Compensation Expense

The amount of stock-based compensation expense recognized during a period is based on the value of the awards that are ultimately expected to vest. Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. The term "forfeitures" is distinct from "cancellations" or "expirations" and represents only the unvested portion of the surrendered stock-based award. Based on an analysis of its historical forfeitures, the Company has applied an annual forfeiture rate of 4.7% to all unvested stock-based awards as of January 31, 2015. The rate of 4.7% represents the portion that is expected to be forfeited over the vesting period.

This analysis will be re-evaluated quarterly and the forfeiture rate will be adjusted as necessary. Ultimately, the actual expense recognized over the vesting period will only be for those options that vest.

#### Additional paid-in-capital (APIC) Pool

The APIC pool represents the excess tax benefits related to share-based compensation that are available to absorb future tax deficiencies. If the amount of future tax deficiencies is greater than the available APIC pool, the Company records the excess as income tax expense in its condensed consolidated statements of income. During the three-month periods ended

7

---

January 31, 2015 and February 1, 2014, the Company had available APIC pool to absorb tax deficiencies recorded and as a result, these deficiencies did not affect its results of operations.

#### Stock-Based Compensation Activity

A summary of the activity under the Company's stock option plans as of January 31, 2015 and changes during the three-month period then ended is presented below:

| Activity during the Three Months Ended January 31, 2015    | Options Outstanding (in thousands) | Weighted-Average Exercise Price Per Share | Weighted-Average Remaining Contractual Term in Years | Aggregate Intrinsic Value |
|--|------------------------------------|---|--|---------------------------|
| Options outstanding at November 1, 2014                    | 14,184                             | \$37.20                                   |  |                           |
| Options granted  | 55                                 | \$51.23                                   |  |                           |
| Options exercised  | (1,333 )                           | \$32.47                                   |  |                           |
| Options forfeited  | (57 )                              | \$44.34                                   |  |                           |
| Options expired  | (19 )                              | \$35.93                                   |  |                           |
| Options outstanding at January 31, 2015                    | 12,830                             | \$37.72                                   | 5.8  | \$184,645                 |
| Options exercisable at January 31, 2015                    | 7,560                              | \$31.68                                   | 4.1  | \$154,402                 |
| Options vested or expected to vest at January 31, 2015 (1) | 12,438                             | \$37.41                                   | 5.7  | \$182,829                 |

In addition to the vested options, the Company expects a portion of the unvested options to vest at some point in (1) the future. The number of options expected to vest is calculated by applying an estimated forfeiture rate to the unvested options.

During the three months ended January 31, 2015, the total intrinsic value of options exercised (i.e., the difference between the market price at exercise and the price paid by the employee to exercise the options) was \$29.7 million, and the total amount of proceeds received by the Company from the exercise of these options was \$42.8 million.

During the three months ended February 1, 2014, the total intrinsic value of options exercised (i.e., the difference between the market price at exercise and the price paid by the employee to exercise the options) was \$44.9 million, and the total amount of proceeds received by the Company from the exercise of these options was \$79.6 million.

A summary of the Company's restricted stock unit award activity as of January 31, 2015 and changes during the three-month period then ended is presented below:

| Activity during the Three Months Ended January 31, 2015 | Restricted Stock Units Outstanding (in thousands) | Weighted-Average Grant-Date Fair Value Per Share |
|---|---|--|
| Restricted stock units outstanding at November 1, 2014  | 3,188   | \$43.46  |
| Units granted   | 96  | \$44.06  |
| Restrictions lapsed                                     | (250 )  | \$44.42  |
| Forfeited   | (68 )   | \$44.77  |
| Restricted stock units outstanding at January 31, 2015  | 2,966   | \$43.37  |

As of January 31, 2015, there was \$102.8 million of total unrecognized compensation cost related to unvested share-based awards comprised of stock options and restricted stock units. That cost is expected to be recognized over a weighted-average period of 1.3 years. The total grant-date fair value of shares that vested during the three months ended January 31, 2015 was approximately \$16.6 million. The total grant-date fair value of shares that vested during the three months ended February 1, 2014 was approximately \$39.5 million.

Note 4 – Common Stock Repurchase

The Company's common stock repurchase program has been in place since August 2004. In the aggregate, the Board of Directors has authorized the Company to repurchase \$5.6 billion of the Company's common stock under the program. Under the program, the Company may repurchase outstanding shares of its common stock from time to time in the open market and through privately negotiated transactions. Unless terminated earlier by resolution of the Company's Board of Directors, the repurchase program will expire when the Company has repurchased all shares authorized under the program. As of January 31,

8

---

2015, the Company had repurchased a total of approximately 138.1 million shares of its common stock for approximately \$4.9 billion under this program. As of January 31, 2015, an additional \$693.2 million remains available for repurchase of shares under the current authorized program. The repurchased shares are held as authorized but unissued shares of common stock. The Company also, from time to time, repurchases shares in settlement of employee minimum tax withholding obligations due upon the vesting of restricted stock units or the exercise of stock options. The withholding amount is based on the employee's minimum statutory withholding requirement. Any future common stock repurchases will be dependent upon several factors, including the Company's financial performance, outlook, liquidity and the amount of cash the Company has available in the United States.

#### Note 5 – Accumulated Other Comprehensive Income (Loss)

The following table provides the changes in accumulated other comprehensive income (loss), OCI, by component and the related tax effects during the first three months of fiscal 2015.

|   | Foreign<br>currency<br>translation<br>adjustment | Unrealized<br>holding gains<br>on available<br>for sale<br>securities<br>classified as<br>short-term<br>investments | Unrealized<br>holding<br>(losses) on<br>available for<br>sale securities<br>classified as<br>short-term<br>investments | Unrealized<br>holding<br>gains<br>(losses) on<br>derivatives | Pension<br>plans | Total        |
|---|--|---|--|--|------------------|--------------|
| November 1, 2014  | \$(5,132 )                                       | \$518   | \$(306 )   | \$659  | \$(164,265 )     | \$(168,526 ) |
| Other comprehensive income<br>(loss) before reclassifications       | (8,863 )   | (176 )  | (102 )   | (51,225 )  | 15,501           | (44,865 )    |
| Amounts reclassified out of<br>other comprehensive income<br>(loss) | —  | —   | —  | 4,507  | 1,881            | 6,388        |
| Tax effects   | —  | (3 )  | (25 )  | 14,892   | (282 )           | 14,582       |
| Other comprehensive income<br>(loss)                                | (8,863 )   | (179 )  | (127 )   | (31,826 )  | 17,100           | (23,895 )    |
| January 31, 2015  | \$(13,995 )                                      | \$339   | \$(433 )   | \$(31,167 )  | \$(147,165 )     | \$(192,421 ) |



The amounts reclassified out of accumulated other comprehensive income (loss) with presentation location during each period were as follows:

| Comprehensive Income Component  | Three Months<br>Ended<br>January 31, 2015 | Three Months<br>Ended<br>February 1, 2014 | Location   |
|---|---|---|--|
| Unrealized holding (losses) gains on derivatives  |   |   |  |
| Currency forwards   | \$2,362                                   | \$312                                     | Cost of sales                                    |
|   | 1,395                                     | (389                                      | ) Research and development                       |
|   | 2,490                                     | 58  | ) Selling, marketing, general and administrative |
|   | (1,466                                    | ) —                                       | (a)  |
| Treasury rate lock  | (274                                      | ) (274                                    | ) Interest, expense                              |
|   | 4,507                                     | (293                                      | ) Total before tax                               |
|   | 98  | 98  | Tax  |
|   | \$4,605                                   | \$(195                                    | ) Net of tax                                     |
| Amortization of pension components  |   |   |  |
| Transition obligation   | \$5                                       | \$5                                       | (b)  |
| Prior service credit  | (62                                       | ) (60                                     | ) (b)  |
| Actuarial losses  | 1,938                                     | 1,135                                     | (b)  |
|   | 1,881                                     | 1,080                                     | Total before tax                                 |
|   | (282                                      | ) (162                                    | ) Tax  |
|   | \$1,599                                   | \$918                                     | Net of tax                                       |
| Total amounts reclassified out of accumulated other comprehensive income (loss), net of tax | \$6,204                                   | \$723                                     |  |

a) The gain related to a fixed asset purchase was reclassified out of accumulated other comprehensive income (loss) to fixed assets which will depreciate into earnings over its expected useful life.

b) The amortization of pension components is included in the computation of net periodic pension cost. For further information see Note 13, Retirement Plans, contained in Item 8 of the Annual Report on Form 10-K for the fiscal year ended November 1, 2014.

The Company estimates \$12.4 million of net derivative unrealized holding losses included in OCI will be reclassified into earnings within the next twelve months. There was no ineffectiveness in the three-month periods ended January 31, 2015 and February 1, 2014.

Unrealized gains and losses on available-for-sale securities classified as short-term investments at January 31, 2015 and November 1, 2014 are as follows:

|  | January 31,<br>2015 | November 1,<br>2014 |
|--|---------------------|---------------------|
| Unrealized gains on securities classified as short-term investments              | \$366               | \$541               |
| Unrealized losses on securities classified as short-term investments             | (510                | ) (407              |
| Net unrealized (losses) gains on securities classified as short-term investments | \$(144              | ) \$134             |

As of January 31, 2015, the Company held 72 investment securities, 19 of which were in an unrealized loss position with gross unrealized loss of \$0.5 million and an aggregate fair value of \$688.1 million. As of November 1, 2014, the

Company held 66 investment securities, 18 of which were in an unrealized loss position with gross unrealized loss of \$0.4 million and an aggregate fair value of \$694.7 million. These unrealized losses were primarily related to corporate obligations that earn lower interest rates than current market rates. None of these investments have been in a loss position for more than twelve months. As the Company does not intend to sell these investments and it is unlikely that the Company will be required to sell the

investments before recovery of their amortized basis, which will be at maturity, the Company does not consider those investments to be other-than-temporarily impaired at January 31, 2015 and November 1, 2014.

Realized gains or losses on investments are determined based on the specific identification basis and are recognized in nonoperating expense (income). There were no material net realized gains or losses from the sales of available-for-sale investments during any of the fiscal periods presented.

#### Note 6 – Earnings Per Share

Basic earnings per share is computed based only on the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed using the weighted average number of common shares outstanding during the period, plus the dilutive effect of potential future issuances of common stock relating to stock option programs and other potentially dilutive securities using the treasury stock method. In calculating diluted earnings per share, the dilutive effect of stock options is computed using the average market price for the respective period. In addition, the assumed proceeds under the treasury stock method include the average unrecognized compensation expense of stock options that are in-the-money and restricted stock units. This results in the “assumed” buyback of additional shares, thereby reducing the dilutive impact of in-the-money stock options. Potential shares related to certain of the Company’s outstanding stock options were excluded because they were anti-dilutive. Those potential shares, determined based on the weighted average exercise prices during the respective periods, related to the Company’s outstanding stock options could be dilutive in the future.

The following table sets forth the computation of basic and diluted earnings per share:

|  | Three Months Ended |                  |
|--|--------------------|------------------|
|  | January 31, 2015   | February 1, 2014 |
| Net Income   | \$ 178,757         | \$ 152,586       |
| Basic shares:  |                    |                  |
| Weighted-average shares outstanding                  | 311,274            | 312,286          |
| Earnings per share basic:                            | \$0.57             | \$0.49           |
| Diluted shares:                                      |                    |                  |
| Weighted-average shares outstanding                  | 311,274            | 312,286          |
| Assumed exercise of common stock equivalents         | 4,410              | 5,731            |
| Weighted-average common and common equivalent shares | 315,684            | 318,017          |
| Earnings per share diluted:                          | \$0.57             | \$0.48           |
| Anti-dilutive shares related to:                     |                    |                  |
| Outstanding stock options                            | 2,205              | 2,242            |

#### 7 – Special Charges

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

The following tables display the special charges taken for ongoing actions and a roll-forward from November 1, 2014 to January 31, 2015 of the employee separation and exit cost accruals established related to these actions.

|                                       |                                    |
|---------------------------------------|------------------------------------|
|                                       | Reduction of<br>Operating<br>Costs |
| Statements of Income                  | Fiscal 2014                        |
| Workforce reductions                  | \$37,873                           |
| Facility closure costs                | 459                                |
| Non-cash impairment charge            | 433                                |
| Change in estimates                   | (1,443 )                           |
| Total Charges                         | \$37,322                           |
|                                       | Reduction of<br>Operating<br>Costs |
| Accrued Restructuring                 | Fiscal 2015                        |
| Balance at November 1, 2014           | \$40,503                           |
| Facility closure costs                | (366 )                             |
| Non-cash impairment charge            | (433 )                             |
| Severance payments                    | (14,795 )                          |
| Effect of foreign currency on accrual | (447 )                             |
| Balance at January 31, 2015           | \$24,462                           |

#### Reduction of Operating Costs

During fiscal 2014, the Company recorded special charges of approximately \$37.3 million. These special charges included \$37.9 million for severance and fringe benefit costs in accordance with the Company's ongoing benefit plan or statutory requirements at foreign locations for 341 manufacturing, engineering and selling, marketing, general and administrative (SMG&A) employees; \$0.5 million for lease obligation costs for facilities that the Company ceased using during the fourth quarter of fiscal 2014; and \$0.4 million for the impairment of assets that have no future use located at closed facilities. The Company reversed approximately \$1.4 million of its severance accrual related to charges taken in fiscal 2013 primarily due to severance costs being lower than the Company's estimates. As of January 31, 2015, the Company still employed 61 of the 341 employees included in these cost reduction actions. These employees must continue to be employed by the Company until their employment is involuntarily terminated in order to receive the severance benefit.

#### Note 8 – Segment Information

In the first quarter of 2015, the Company implemented organizational changes designed to accelerate the Company's growth by increasing the speed and impact of its technological innovation. The organizational changes combine the Company's market and technology teams to better position engineers with customers in order to address the evolving needs of the markets the Company serves. As a result of these organizational changes, the Company re-evaluated its reporting structure under the new organization and concluded that the Company continues to operate in one reportable segment based on the aggregation of six operating segments. The Company designs, develops, manufactures and markets a broad range of integrated circuits. The Chief Executive Officer has been identified as the Company's Chief Operating Decision Maker. The Company has determined that all of the Company's operating segments share the following similar economic characteristics, and therefore meet the criteria established for operating segments to be aggregated into one reportable segment, namely:

- The primary source of revenue for each operating segment is the sale of integrated circuits.
- The integrated circuits sold by each of the Company's operating segments are manufactured using similar semiconductor manufacturing processes and raw materials in either the Company's own production facilities or by third-party wafer fabricators using proprietary processes.

- The Company sells its products to tens of thousands of customers worldwide. Many of these customers use products spanning all operating segments in a wide range of applications.
- The integrated circuits marketed by each of the Company's operating segments are sold globally through a direct sales force, third-party distributors, independent sales representatives and via our website to the same types of customers. All of the Company's operating segments share a similar long-term financial model as they have similar economic characteristics. The causes for variation in operating and financial performance are the same among the Company's operating segments and include factors such as (i) life cycle and price and cost fluctuations, (ii) number of competitors, (iii) product

differentiation and (iv) size of market opportunity. Additionally, each operating segment is subject to the overall cyclical nature of the semiconductor industry. Lastly, the number and composition of employees and the amounts and types of tools and materials required for production of products are similar for each operating segment.

#### Revenue Trends by End Market

The following table summarizes revenue by end market. The categorization of revenue by end market is determined using a variety of data points including the technical characteristics of the product, the “sold to” customer information, the “ship to” customer information and the end customer product or application into which the Company’s product will be incorporated. As data systems for capturing and tracking this data evolve and improve, the categorization of products by end market can vary over time. When this occurs, the Company reclassifies revenue by end market for prior periods. Such reclassifications typically do not materially change the sizing of, or the underlying trends of results within, each end market.

|                | Three Months Ended<br>January 31, 2015 |                  |      | February 1, 2014 |                 |   |
|----------------|--|------------------|------|------------------|-----------------|---|
|                | Revenue                                | % of<br>Revenue* | Y/Y% | Revenue          | % of<br>Revenue |   |
| Industrial     | \$349,766                              | 45               | % 21 | % \$288,795      | 46              | % |
| Automotive     | 123,675                                | 16               | % (1 | )% 124,607       | 20              | % |
| Consumer       | 94,835                                 | 12               | % 27 | % 74,429         | 12              | % |
| Communications | 203,710                                | 26               | % 45 | % 140,407        | 22              | % |
| Total revenue  | \$771,986                              | 100              | % 23 | % \$628,238      | 100             | % |

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

#### Revenue Trends by Geographic Region

Revenue by geographic region, based on the primary location of the Company's customers' design activity for its products, for the three-month periods ended January 31, 2015 and February 1, 2014 were as follows:

| Region                          | Three Months Ended |                  |
|---------------------------------|--------------------|------------------|
|                                 | January 31, 2015   | February 1, 2014 |
| United States                   | \$234,647          | \$182,298        |
| Rest of North and South America | 23,160             | 19,436           |
| Europe                          | 238,581            | 200,687          |
| Japan                           | 82,668             | 71,091           |
| China                           | 130,719            | 100,484          |
| Rest of Asia                    | 62,211             | 54,242           |
| Total revenue                   | \$771,986          | \$628,238        |

In the three-month periods ended January 31, 2015 and February 1, 2014, the predominant country comprising “Rest of North and South America” is Canada; the predominant countries comprising “Europe” are Germany, Sweden, France and the United Kingdom; and the predominant countries comprising “Rest of Asia” are South Korea and Taiwan.

#### Note 9 – Fair Value

The Company defines fair value as the price that would be received to sell an asset or be paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Company applies the following fair value hierarchy, which prioritizes the inputs used to measure fair value into three levels and bases the categorization within the hierarchy upon the lowest level of input that is available and significant to the fair value measurement. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

Level 1 — Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 — Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 — Level 3 inputs are unobservable inputs for the asset or liability in which there is little, if any, market activity for the asset or liability at the measurement date.

The tables below set forth by level the Company's financial assets and liabilities, excluding accrued interest components, that are accounted for at fair value on a recurring basis as of January 31, 2015 and November 1, 2014. The tables exclude cash on hand and assets and liabilities that are measured at historical cost or any basis other than fair value. As of January 31, 2015 and November 1, 2014, the Company held \$84.6 million and \$121.3 million, respectively, of cash and held-to-maturity investments that were excluded from the tables below.

|  | January 31, 2015          |             |              |             |
|--|---------------------------|-------------|--------------|-------------|
|  | Fair Value measurement at |             |              |             |
|  | Reporting Date using:     |             |              |             |
|  | Quoted                    |             | Significant  |             |
|  | Prices in                 | Significant | Other        | Total       |
|  | Active                    | Other       | Unobservable |             |
|  | Markets                   | Observable  | Inputs       |             |
|  | for                       | Inputs      | (Level 3)    |             |
|  | Identical                 | (Level 2)   |              |             |
|  | Assets                    |             |              |             |
|  | (Level 1)                 |             |              |             |
| Assets   |                           |             |              |             |
| Cash equivalents:                                  |                           |             |              |             |
| Available-for-sale:                                |                           |             |              |             |
| Institutional money market funds                   | \$156,802                 | \$—         | \$—          | \$156,802   |
| Corporate obligations (1)                          | —                         | 408,833     | —            | 408,833     |
| Short - term investments:                          |                           |             |              |             |
| Available-for-sale:                                |                           |             |              |             |
| Securities with one year or less to maturity:      |                           |             |              |             |
| Corporate obligations (1)                          | —                         | 2,033,232   | —            | 2,033,232   |
| Floating rate notes, issued at par                 | —                         | 40,074      | —            | 40,074      |
| Floating rate notes (1)                            | —                         | 50,014      | —            | 50,014      |
| Securities with greater than one year to maturity: |                           |             |              |             |
| Floating rate notes, issued at par                 | —                         | 99,759      | —            | 99,759      |
| Other assets:                                      |                           |             |              |             |
| Deferred compensation investments                  | 21,378                    | —           | —            | 21,378      |
| Total assets measured at fair value                | \$178,180                 | \$2,631,912 | \$—          | \$2,810,092 |
| Liabilities  |                           |             |              |             |
| Forward foreign currency exchange contracts (2)    | —                         | 17,866      | —            | 17,866      |
| Contingent consideration                           | —                         | —           | 4,709        | 4,709       |
| Interest rate swap agreements                      | —                         | 38,070      | —            | 38,070      |
| Total liabilities measured at fair value           | \$—                       | \$55,936    | \$4,709      | \$60,645    |

(1) The amortized cost of the Company's investments classified as available-for-sale as of January 31, 2015 was \$2.3 billion.

(2) The Company has a master netting arrangement by counterparty with respect to derivative contracts. See Note 10, Derivatives, for more information related to the Company's master netting arrangements.



|  | November 1, 2014          |              |              |              |
|--|---------------------------|--------------|--------------|--------------|
|  | Fair Value measurement at |              |              |              |
|  | Reporting Date using:     |              |              |              |
|  | Quoted                    |              |              |              |
|  | Prices in                 | Significant  | Significant  |              |
|  | Active                    | Other        | Other        |              |
|  | Markets                   | Observable   | Unobservable | Total        |
|  | for                       | Inputs       | Inputs       |              |
|  | Identical                 | (Level 2)    | (Level 3)    |              |
|  | Assets                    |              |              |              |
|  | (Level 1)                 |              |              |              |
| Assets   |                           |              |              |              |
| Cash equivalents:                                  |                           |              |              |              |
| Available-for-sale:                                |                           |              |              |              |
| Institutional money market funds                   | \$ 178,067                | \$—          | \$—          | \$ 178,067   |
| Corporate obligations (1)                          | —                         | 269,901      | —            | 269,901      |
| Short - term investments:                          |                           |              |              |              |
| Available-for-sale:                                |                           |              |              |              |
| Securities with one year or less to maturity:      |                           |              |              |              |
| Corporate obligations (1)                          | —                         | 2,122,120    | —            | 2,122,120    |
| Floating rate notes, issued at par                 | —                         | 85,061       | —            | 85,061       |
| Floating rate notes (1)                            | —                         | 50,010       | —            | 50,010       |
| Securities with greater than one year to maturity: |                           |              |              |              |
| Floating rate notes, issued at par                 | —                         | 40,044       | —            | 40,044       |
| Other assets:                                      |                           |              |              |              |
| Deferred compensation investments                  | 21,393                    | —            | —            | 21,393       |
| Interest rate swap agreements                      | —                         | 1,723        | —            | 1,723        |
| Total assets measured at fair value                | \$ 199,460                | \$ 2,568,859 | \$—          | \$ 2,768,319 |
| Liabilities  |                           |              |              |              |
| Contingent consideration                           | —                         | —            | 4,806        | 4,806        |
| Forward foreign currency exchange contracts (2)    | —                         | 10,093       | —            | 10,093       |
| Total liabilities measured at fair value           | \$—                       | \$ 10,093    | \$ 4,806     | \$ 14,899    |

(1) The amortized cost of the Company's investments classified as available-for-sale as of November 1, 2014 was \$2.3 billion.

(2) The Company has a master netting arrangement by counterparty with respect to derivative contracts. See Note 10, Derivatives, for more information related to the Company's master netting arrangements.

The following methods and assumptions were used by the Company in estimating its fair value disclosures for financial instruments:

Cash equivalents and short-term investments — These investments are adjusted to fair value based on quoted market prices or are determined using a yield curve model based on current market rates.

Deferred compensation plan investments — The fair value of these mutual fund, money market fund and equity investments are based on quoted market prices.

Forward foreign currency exchange contracts — The estimated fair value of forward foreign currency exchange contracts, which includes derivatives that are accounted for as cash flow hedges and those that are not designated as cash flow hedges, is based on the estimated amount the Company would receive if it sold these agreements at the reporting date taking into consideration current interest rates as well as the creditworthiness of the counterparty for assets and the Company's creditworthiness for liabilities. The fair value of these instruments is based upon valuation models using current market information such as strike price, spot rate, maturity date and volatility.

Interest rate swap agreements — The fair value of interest rate swap agreements is based on the quoted market price for the same or similar financial instruments.

Contingent consideration — The fair value of the contingent consideration was estimated utilizing the income approach and is based upon significant inputs not observable in the market. The income approach is based on two steps. The first step involves a projection of the cash flows that is based on the Company's estimates of the timing and probability of achieving the defined milestones. The second step involves converting the cash flows into a present value equivalent through discounting. The discount rate reflects the Baa costs of debt plus the relevant risk associated with the asset and the time value of money.

The fair value measurement of the contingent consideration encompasses the following significant unobservable inputs:

|   |             |
|---|-------------|
| Unobservable Inputs                         | Range       |
| Estimated contingent consideration payments | \$5,000     |
| Discount rate                               | 0% - 10%    |
| Timing of cash flows                        | 1 - 2 years |
| Probability of achievement                  | 100%        |

Changes in the fair value of the contingent consideration subsequent to the acquisition date that are primarily driven by assumptions pertaining to the achievement of the defined milestones will be recognized in operating income in the period of the estimated fair value change. Significant increases or decreases in any of the inputs in isolation may result in a fluctuation in the fair value measurement.

The following table summarizes the change in the fair value of the contingent consideration measured using significant unobservable inputs (Level 3) from November 1, 2014 to January 31, 2015:

|                                |                             |
|--------------------------------|-----------------------------|
|                                | Contingent<br>Consideration |
| Balance as of November 1, 2014 | \$4,806                     |
| Fair value adjustment (1)      | 47                          |
| Effect of foreign currency     | (144 )                      |
| Balance as of January 31, 2015 | \$4,709                     |

(1) Recorded in research and development expense in the Company's condensed consolidated statements of income. Financial Instruments Not Recorded at Fair Value on a Recurring Basis

On April 4, 2011, the Company issued \$375.0 million aggregate principal amount of 3.0% senior unsecured notes due April 15, 2016 (the 2016 Notes) with semi-annual fixed interest payments due on April 15 and October 15 of each year, commencing October 15, 2011. Based on quotes received from third-party banks, the fair value of the 2016 Notes as of January 31, 2015 and November 1, 2014 was \$383.6 million and \$386.3 million, respectively, and is classified as a Level 1 measurement according to the fair value hierarchy.

On June 3, 2013, the Company issued \$500.0 million aggregate principal amount of 2.875% senior unsecured notes due June 1, 2023 (the 2023 Notes) with semi-annual fixed interest payments due on June 1 and December 1 of each year, commencing December 1, 2013. Based on quotes received from third-party banks, the fair value of the 2023 Notes as of January 31, 2015 and November 1, 2014 was \$506.0 million and \$483.5 million, respectively, and is classified as a Level 1 measurement according to the fair value hierarchy.

#### Note 10 – Derivatives

Foreign Exchange Exposure Management — The Company enters into forward foreign currency exchange contracts to offset certain operational and balance sheet exposures from the impact of changes in foreign currency exchange rates. Such exposures result from the portion of the Company's operations, assets and liabilities that are denominated in currencies other

than the U.S. dollar, primarily the Euro; other significant exposures include the Philippine Peso, the Japanese Yen and the British Pound. These foreign currency exchange contracts are entered into to support transactions made in the normal course of business, and accordingly, are not speculative in nature. The contracts are for periods consistent with the terms of the underlying transactions, generally one year or less. Hedges related to anticipated transactions are designated and documented at the inception of the respective hedges as cash flow hedges and are evaluated for

effectiveness monthly. Derivative instruments are employed to eliminate or minimize certain foreign currency exposures that can be confidently identified and quantified. As the terms of the contract and the underlying transaction are matched at inception, forward contract effectiveness is calculated by comparing the change in fair value of the contract to the change in the forward value of the anticipated transaction, with the effective portion of the gain or loss on the derivative reported as a component of accumulated OCI in shareholders' equity and

reclassified into earnings in the same period during which the hedged transaction affects earnings. Any residual change in fair value of the instruments, or ineffectiveness, is recognized immediately in other (income) expense. Additionally, the Company enters into forward foreign currency contracts that economically hedge the gains and losses generated by the re-measurement of certain recorded assets and liabilities in a non-functional currency. Changes in the fair value of these undesignated hedges are recognized in other (income) expense immediately as an offset to the changes in the fair value of the asset or liability being hedged. As of January 31, 2015 and November 1, 2014, the total notional amount of these undesignated hedges was \$38.7 million and \$45.2 million, respectively. The fair value of these undesignated hedges in the Company's condensed consolidated balance sheets as of January 31, 2015 was \$0.7 million and was immaterial as of November 1, 2014.

**Interest Rate Exposure Management** — The Company's current and future debt may be subject to interest rate risk. The Company utilizes interest rate derivatives to alter interest rate exposure in an attempt to reduce the effects of these changes.

On October 28, 2014, the Company entered into forward starting interest rate swap transactions to hedge its exposure to the variability in future cash flows due to changes in interest rates for debt issuances expected to occur in the future. Amounts reported in OCI related to these derivatives will be reclassified from OCI to earnings as interest expense is incurred on the forecasted hedged fixed-rate debt, adjusting interest expense to reflect the fixed-rate entered into by the forward starting swaps. These cash flow instruments hedge forecasted interest payments to be made through 2025. These forward starting swaps will be terminated on the day the hedged forecasted debt issuances occur, but no later than December 1, 2015, if the hedged forecasted debt issuances do not occur. The total notional value of these hedges as of January 31, 2015 and November 1, 2014 was \$500.0 million. The fair value of these hedges was \$38.1 million as of January 31, 2015, included in accrued liabilities, and \$1.7 million as of November 1, 2014, included in other assets, in the Company's condensed consolidated balance sheet.

On April 24, 2013, the Company entered into a treasury rate lock agreement with Bank of America. This agreement allowed the Company to lock a 10-year US Treasury rate of 1.7845% through June 14, 2013 for its anticipated issuance of the 2023 Notes. The Company designated this agreement as a cash flow hedge. On June 3, 2013, the Company terminated the treasury rate lock simultaneously with the issuance of the 2023 Notes which resulted in a gain of approximately \$11.0 million. This gain is being amortized into interest expense over the 10-year term of the 2023 Notes. See Note 5, Accumulated Other Comprehensive Income (Loss), for more information relating to the amortization of the treasury rate lock into interest expense.

The market risk associated with the Company's derivative instruments results from currency exchange rate or interest rate movements that are expected to offset the market risk of the underlying transactions, assets and liabilities being hedged. The counterparties to the agreements relating to the Company's derivative instruments consist of a number of major international financial institutions with high credit ratings. Based on the credit ratings of the Company's counterparties as of January 31, 2015, nonperformance is not perceived to be a significant risk. Furthermore, none of the Company's derivatives are subject to collateral or other security arrangements and none contain provisions that are dependent on the Company's credit ratings from any credit rating agency. While the contract or notional amounts of derivative financial instruments provide one measure of the volume of these transactions, they do not represent the amount of the Company's exposure to credit risk. The amounts potentially subject to credit risk (arising from the possible inability of counterparties to meet the terms of their contracts) are generally limited to the amounts, if any, by which the counterparties' obligations under the contracts exceed the obligations of the Company to the counterparties. As a result of the above considerations, the Company does not consider the risk of counterparty default to be significant.

The Company records the fair value of its derivative financial instruments in its condensed consolidated financial statements in other current assets, other assets or accrued liabilities, depending on their net position, regardless of the purpose or intent for holding the derivative contract. Changes in the fair value of the derivative financial instruments are either recognized periodically in earnings or in shareholders' equity as a component of OCI. Changes in the fair value of cash flow hedges are recorded in OCI and reclassified into earnings when the underlying contract matures. Changes in the fair values of derivatives not qualifying for hedge accounting or the ineffective portion of designated hedges are reported in earnings as they occur.

Edgar Filing: ANALOG DEVICES INC - Form 10-Q

The total notional amounts of forward foreign currency derivative instruments designated as hedging instruments of cash flow hedges denominated in Euros, British Pounds, Philippine Pesos and Japanese Yen as of January 31, 2015 and November 1, 2014 was \$177.9 million and \$183.5 million, respectively. The fair values of forward foreign currency derivative instruments designated as hedging instruments in the Company's condensed consolidated balance sheets as of January 31, 2015 and November 1, 2014 were as follows:

|   | Balance Sheet Location | Fair Value At<br>January 31,<br>2015 | November 1,<br>2014 |
|---|------------------------|--------------------------------------|---------------------|
| Forward foreign currency exchange contracts | Accrued liabilities    | \$17,170                             | \$10,584            |

For information on the unrealized holding gains (losses) on derivatives included in and reclassified out of accumulated other comprehensive income into the condensed consolidated statement of income related to forward foreign currency exchange contracts, see Note 5, Accumulated Other Comprehensive Income (Loss).

All of the Company's derivative financial instruments are subject to master netting arrangements that allow the Company and its counterparties to net settle amounts owed to each other. Derivative assets and liabilities that can be net settled under these arrangements have been presented in the Company's consolidated balance sheet on a net basis. As of January 31, 2015 and November 1, 2014, none of the master netting arrangements involved collateral. The following table presents the gross amounts of the Company's derivative assets and liabilities and the net amounts recorded in our consolidated balance sheet:

|  | January 31,<br>2015 | November 1,<br>2014 |
|--|---------------------|---------------------|
| Gross amount of recognized liabilities                                   | \$(18,395           | \$(10,736           |
| Gross amounts recognized assets offset in the consolidated balance sheet | 529                 | 643                 |
| Net liabilities presented in the consolidated balance sheet              | \$(17,866           | \$(10,093           |

#### Note 11 – Goodwill and Intangible Assets

##### Goodwill

The Company evaluates goodwill for impairment annually, as well as whenever events or changes in circumstances suggest that the carrying value of goodwill may not be recoverable. The Company tests goodwill for impairment at the reporting unit level (operating segment or one level below an operating segment) on an annual basis on the first day of the fourth quarter (on or about August 1) or more frequently if indicators of impairment exist. In the first quarter of 2015, the Company implemented organizational changes designed to accelerate the Company's growth by increasing the speed and impact of its technological innovation. The organizational changes combine the Company's market and technology teams to address the evolving needs of the markets and customers the Company serves. The Company performed an impairment analysis immediately prior to and subsequent to the reorganization and evaluated goodwill for impairment as of the date of reorganization. The Company identified its reporting units to be its six operating segments. The performance of the test involves a two-step process. The first step of the impairment test involves comparing the fair values of the applicable reporting units with their aggregate carrying values, including goodwill. The Company determines the fair value of its reporting units using the income approach methodology of valuation that includes the discounted cash flow method, as well as other generally accepted valuation methodologies. If the carrying amount of a reporting unit exceeds the reporting unit's fair value, the Company performs the second step of the goodwill impairment test to determine the amount of impairment loss. The second step of the goodwill impairment test involves comparing the implied fair value of the affected reporting unit with the carrying value of that reporting unit. Based on this analysis, no impairment was identified. The Company's next annual impairment assessment will be performed as of the first day of the fourth quarter of fiscal 2015 unless indicators arise that would require the Company to re-evaluate at an earlier date. The following table presents the changes in goodwill during the first three months of fiscal 2015:

|   | Three Months<br>Ended<br>January 31, 2015 |
|---|---|
| Balance as of November 1, 2014                                  | \$1,642,438                               |
| Goodwill adjustment related to acquisition of Hittite (Note 16) | 3,757                                     |
| Goodwill adjustment related to acquisition of Metroic (1)       | 117                                       |
| Foreign currency translation adjustment                         | (4,519                                    |
| Balance as of January 31, 2015                                  | \$1,641,793                               |

(1) Represents changes to goodwill as a result of finalizing working capital adjustments related to this acquisition.

##### Intangible Assets

The Company reviews finite-lived intangible assets for impairment whenever events or changes in circumstances indicate that the carrying value of assets may not be recoverable. Recoverability of these assets is determined by comparison of their carrying value to future undiscounted cash flows the assets are expected to generate over their remaining economic lives. If such assets are considered to be impaired, the impairment to be recognized in earnings equals the amount by which the carrying value of the assets exceeds their fair value determined by either a quoted market price, if any, or a value determined by utilizing

18

---



a discounted cash flow technique. As of January 31, 2015 and November 1, 2014, the Company's finite-lived intangible assets consisted of the following:

|                        | January 31, 2015      |                          | November 1, 2014      |                          |
|------------------------|-----------------------|--------------------------|-----------------------|--------------------------|
|                        | Gross Carrying Amount | Accumulated Amortization | Gross Carrying Amount | Accumulated Amortization |
| Customer relationships | \$624,900             | \$36,838                 | \$624,900             | \$19,473                 |
| Technology-based       | 16,200                | 2,626                    | 16,200                | 1,627                    |
| Backlog                | 25,500                | 13,529                   | 25,500                | 7,154                    |
| Total                  | \$666,600             | \$52,993                 | \$666,600             | \$28,254                 |

For the three-month periods ended January 31, 2015 and February 1, 2014, amortization expense related to finite-lived intangible assets was \$24.7 million and \$0.1 million, respectively. The remaining amortization expense will be recognized over an estimated weighted average life of approximately 4.2 years.

The Company expects annual amortization expense for intangible assets to be:

| Fiscal Year              | Amortization Expense |
|--------------------------|----------------------|
| Remainder of fiscal 2015 | \$67,042             |
| 2016                     | \$73,428             |
| 2017                     | \$73,300             |
| 2018                     | \$72,149             |
| 2019                     | \$69,433             |
| 2020                     | \$69,433             |

Indefinite-lived intangible assets are tested for impairment on an annual basis on the first day of the fourth quarter (on or about August 1) or more frequently if indicators of impairment exist. The impairment test involves the comparison of the fair values of the intangible assets with their carrying amount. No impairment of intangible assets resulted from the impairment tests in any of the fiscal years presented.

Intangible assets, excluding in-process research and development (IPR&D), are amortized on a straight-line basis over their estimated useful lives or on an accelerated method of amortization that is expected to reflect the estimated pattern of economic use. IPR&D assets are considered indefinite-lived intangible assets until completion or abandonment of the associated research and development (R&D) efforts. Upon completion of the projects, the IPR&D assets will be amortized over their estimated useful lives.

Indefinite-lived intangible assets consisted of \$32.8 million and \$33.1 million of IPR&D as of January 31, 2015 and November 1, 2014, respectively.

#### Note 12 – Pension Plans

The Company has various defined benefit pension and other retirement plans for certain non-U.S. employees that are consistent with local statutory requirements and practices. The Company's funding policy for its foreign defined benefit pension plans is consistent with the local requirements of each country. The plans' assets consist primarily of U.S. and non-U.S. equity securities, bonds, property and cash.

Net periodic pension cost of non-U.S. plans is presented in the following table:

|  | Three Months Ended |                  |
|--|--------------------|------------------|
|  | January 31, 2015   | February 1, 2014 |
| Service cost                           | \$4,824            | \$3,398          |
| Interest cost                          | 3,582              | 3,530            |
| Expected return on plan assets         | (4,165)            | (3,416)          |
| Amortization of initial net obligation | 5                  | 5                |
| Amortization of prior service cost     | (75)               | (61)             |
| Amortization of net loss               | 2,321              | 1,143            |
| Net periodic pension cost              | \$6,492            | \$4,599          |



Pension contributions of \$4.5 million were made by the Company during the three months ended January 31, 2015. The Company presently anticipates contributing an additional \$11.4 million to fund its defined benefit pension plans in fiscal year 2015 for a total of \$15.9 million.

#### Note 13 – Revolving Credit Facility

As of January 31, 2015, the Company had \$2.9 billion of cash and cash equivalents and short-term investments, of which \$741.0 million was held in the United States. The balance of the Company's cash and cash equivalents and short-term investments was held outside the United States in various foreign subsidiaries. As the Company intends to reinvest its foreign earnings indefinitely, this cash is not available to meet the Company's cash requirements in the United States, including cash dividends and common stock repurchases. On December 19, 2012, the Company entered into a five-year, \$500.0 million senior unsecured revolving credit facility with certain institutional lenders (the Credit Agreement). In June 2014, the Company amended this credit facility to temporarily increase the amount of allowed subsidiary indebtedness related to the financing of the Acquisition. To date, the Company has not borrowed under this credit facility but the Company may borrow in the future and use the proceeds for repayment of existing indebtedness, stock repurchases, acquisitions, capital expenditures, working capital and other lawful corporate purposes. Revolving loans under the Credit Agreement (other than swing line loans) bear interest, at the Company's option, at either a rate equal to (a) the Eurodollar Rate (as defined in the Credit Agreement) plus a margin based on the Company's debt rating or (b) the Base Rate (defined as the highest of (i) the Bank of America prime rate, (ii) the Federal Funds Rate (as defined in the Credit Agreement) plus .50% or (iii) one month Eurodollar Rate plus 1.00%) plus a margin based on the Company's debt rating. The terms of the facility impose restrictions on the Company's ability to undertake certain transactions, to create certain liens on assets and to incur certain subsidiary indebtedness. In addition, the Credit Agreement contains a consolidated leverage ratio covenant of total consolidated funded debt to consolidated earnings before interest, taxes, depreciation, and amortization (EBITDA) of not greater than 3.0 to 1.0. As of January 31, 2015, the Company was compliant with these covenants.

#### Note 14 – Debt

On April 4, 2011, the Company issued \$375.0 million aggregate principal amount of 3.0% senior unsecured notes due April 15, 2016 (the 2016 Notes) with semi-annual fixed interest payments due on April 15 and October 15 of each year, commencing October 15, 2011. The sale of the 2016 Notes was made pursuant to the terms of an underwriting agreement, dated March 30, 2011, between the Company and Credit Suisse Securities (USA) LLC and Merrill Lynch, Pierce, Fenner and Smith Incorporated, as representative of the several underwriters named therein. The net proceeds of the offering were \$370.5 million, after issuing at a discount and deducting expenses, underwriting discounts and commissions, which will be amortized over the term of the 2016 Notes. The indenture governing the 2016 Notes contains covenants that may limit the Company's ability to: incur, create, assume or guarantee any debt for borrowed money secured by a lien upon a principal property; enter into sale and lease-back transactions with respect to a principal property; and consolidate with or merge into, or transfer or lease all or substantially all of its assets to, any other party. As of January 31, 2015, the Company was compliant with these covenants. The 2016 Notes are subordinated to any future secured debt and to the other liabilities of the Company's subsidiaries.

On June 3, 2013, the Company issued \$500.0 million aggregate principal amount of 2.875% senior unsecured notes due June 1, 2023 (the 2023 Notes) with semi-annual fixed interest payments due on June 1 and December 1 of each year, commencing December 1, 2013. Prior to issuing the 2023 Notes, on April 24, 2013, the Company entered into a treasury rate lock agreement with Bank of America. This agreement allowed the Company to lock a 10-year US Treasury rate of 1.7845% through June 14, 2013 for its anticipated issuance of the 2023 Notes. Upon issuing the 2023 Notes, the Company simultaneously terminated the treasury rate lock agreement resulting in a gain of approximately \$11.0 million. This gain will be amortized into interest expense over the 10-year term of the 2023 Notes. The sale of the 2023 Notes was made pursuant to the terms of an underwriting agreement, dated as of May 22, 2013, among the Company and J.P. Morgan Securities LLC, Merrill Lynch, Pierce, Fenner & Smith Incorporated and Credit Suisse Securities (USA) LLC, as the representatives of the several underwriters named therein. The net proceeds of the

offering were \$493.9 million, after discount and issuance costs. Debt discount and issuance costs will be amortized through interest expense over the term of the 2023 Notes. The indenture governing the 2023 Notes contains covenants that may limit the Company's ability to: incur, create, assume or guarantee any debt for borrowed money secured by a lien upon a principal property; enter into sale and lease-back transactions with respect to a principal property; and consolidate with or merge into, or transfer or lease all or substantially all of its assets to, any other party. As of January 31, 2015, the Company was compliant with these covenants. The notes are subordinated to any future secured debt and to the other liabilities of the Company's subsidiaries.

On July 22, 2014, the Company entered into a 90-day term loan facility in an aggregate principal amount of \$2.0 billion with Credit Suisse AG, as Administrative Agent, and each lender from time to time party thereto (the Term Loan Agreement) to

finance the Acquisition. The outstanding balance due under the Term Loan Agreement was repaid on August 29, 2014. Loans under the Term Loan Agreement bore interest at the Eurodollar Rate (as defined in the Term Loan Agreement) plus 1.00% (1.16% as of August 2, 2014). Payments of the principal amounts of revolving loans under the Term Loan Agreement were due no later than October 20, 2014 and did not require interim amortization. Expenses incurred related to the debt were amortized over the 90-day term. The Term Loan Agreement contained customary representations and warranties and affirmative and negative covenants, including, among others, limitations on liens, indebtedness of subsidiaries, mergers and other fundamental changes, sales and other dispositions of property or assets and transactions with affiliates. The Term Loan Agreement contained a consolidated leverage ratio covenant of total consolidated funded debt to consolidated earnings before interest, taxes, depreciation, and amortization (EBITDA) of not greater than 3.0 to 1.0.

The Company's principal payments related to its debt obligations are as follows: \$375.0 million in fiscal 2016 and \$500.0 million in fiscal 2023.

#### Note 15 – Inventories

Inventories are valued at the lower of cost (first-in, first-out method) or market. The valuation of inventory requires the Company to estimate obsolete or excess inventory as well as inventory that is not of saleable quality. The Company employs a variety of methodologies to determine the net realizable value of its inventory. While a portion of the calculation to record inventory at its net realizable value is based on the age of the inventory and lower of cost or market calculations, a key factor in estimating obsolete or excess inventory requires the Company to estimate the future demand for its products. If actual demand is less than the Company's estimates, impairment charges, which are recorded to cost of sales, may need to be recorded in future periods. Inventory in excess of saleable amounts is not valued, and the remaining inventory is valued at the lower of cost or market. Approximately \$8.8 million of raw materials have been classified as non-current and are presented within the condensed consolidated balance sheet as other assets as the Company does not expect this inventory to be sold within one year. This inventory was purchased as part of a planned transition from a principal foundry supplier and was acquired by the Company through the Acquisition. The larger than normal purchase was made to maintain an adequate supply of the raw material for customers, which has a natural life of five to ten years.

Inventories at January 31, 2015 and November 1, 2014 were as follows:

|                         | January 31,<br>2015 | November 1,<br>2014 |
|-------------------------|---------------------|---------------------|
| Raw materials           | \$44,574            | \$47,267            |
| Work in process         | 223,049             | 216,765             |
| Finished goods          | 99,615              | 103,895             |
| Total inventories       | \$367,238           | \$367,927           |
| Non-current inventories | \$8,793             | \$8,793             |

#### Note 16 – Acquisitions

##### Hittite Microwave Corporation

On July 22, 2014, the Company completed its acquisition of Hittite Microwave Corporation (Hittite), a company that designs and develops high performance integrated circuits, modules, subsystems and instrumentation for radio frequency, microwave and millimeterwave applications. The total consideration paid to acquire Hittite was approximately \$2.4 billion, financed through a combination of existing cash on hand and a 90-day term loan facility of \$2.0 billion. The Acquisition is expected to expand the Company's technology position in high performance signal processing solutions and drive growth in key markets. The Company completed the Acquisition through a cash tender offer (the Offer) by BBAC Corp., a wholly-owned subsidiary of the Company, for all of the outstanding shares of common stock, par value \$0.01 per share, of Hittite at a purchase price of \$78.00 per share, net to the seller in cash, without interest, less any applicable withholding taxes. After completion of the Offer, BBAC Corp. merged with and

into Hittite, with Hittite continuing as the surviving corporation and a wholly-owned subsidiary of the Company.

During the first quarter of fiscal 2015, the Company recorded an acquisition accounting adjustment of \$3.8 million to deferred income taxes and goodwill. The Acquisition accounting is not complete and additional information that existed at the acquisition date may become known to the Company during the remainder of the measurement period. As of the filing date of this Quarterly Report on Form 10-Q, the Company is still in the process of valuing the assets acquired of Hittite's business, including inventory, deferred income taxes, and assumed liabilities.

## Note 17 – Income Taxes

The Company has provided for potential tax liabilities due in the various jurisdictions in which the Company operates. Judgment is required in determining the worldwide income tax expense provision. In the ordinary course of global business, there are many transactions and calculations where the ultimate tax outcome is uncertain. Some of these uncertainties arise as a consequence of cost reimbursement arrangements among related entities. Although the Company believes its estimates are reasonable, no assurance can be given that the final tax outcome of these matters will not be different from that which is reflected in the historical income tax provisions and accruals. Such differences could have a material impact on the Company's income tax provision and operating results in the period in which such determination is made.

The Company's effective tax rate reflects the applicable tax rate in effect in the various tax jurisdictions around the world where our income is earned. The Company's effective tax rate for all periods presented is lower than the U.S. federal statutory rate of 35%, primarily due to lower statutory tax rates applicable to the Company's operations in jurisdictions in which the Company earns income.

The Company has filed a petition with the U.S. Tax Court for one open matter for fiscal years 2006 and 2007 that pertains to Section 965 of the Internal Revenue Code related to the beneficial tax treatment of dividends paid from foreign owned companies under The American Jobs Creation Act. The potential liability for this adjustment is \$36.5 million. On September 18, 2013, in a matter not involving the Company, the U.S. Tax Court held that accounts receivable created under Rev. Proc. 99-32 may constitute indebtedness for purposes of Section 965 (b)(3) of the Internal Revenue Code and that the IRS was not precluded from reducing the beneficial dividend-received deduction because of the increase in related-party indebtedness (BMC Software Inc. v Commissioner, 141 T.C. No. 5 2013). After analyzing the Tax Court's decision, the Company has determined that its tax position with respect to Section 965(b)(3) no longer meets the more likely than not standard of recognition for accounting purposes. Accordingly, the Company recorded a \$36.5 million reserve for this matter in the fourth quarter of fiscal 2013.

All of the Company's U.S. federal tax returns prior to fiscal year 2011 are no longer subject to examination.

All of the Company's Ireland tax returns prior to fiscal year 2010 are no longer subject to examination.

## Unrealized Tax Benefits

The following table summarizes the changes in the total amounts of unrealized tax benefits for the three months ended January 31, 2015.

|  | Unrealized Tax<br>Benefits |
|--|----------------------------|
| Balance as of November 1, 2014                               | \$65,464                   |
| Reductions due to lapse of applicable statute of limitations | (766 )                     |
| Balance as of January 31, 2015                               | \$64,698                   |

## Note 18 – New Accounting Pronouncements

## Standards Implemented

## Income Taxes

In July 2013, the Financial Accounting Standards Board (FASB) issued ASU No. 2013-11 (ASU No. 2013-11), Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. ASU No. 2013-11 requires that an unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss or a tax credit carryforward, with certain exceptions. ASU No. 2013-11 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2013, which is the Company's first quarter of fiscal year 2015. Early adoption is permitted. The adoption of ASU No. 2013-11 in the first quarter of fiscal 2015 did not impact the Company's financial condition or results of operations.

## Standards to be Implemented

## Stock Compensation

In June 2014, the FASB issued ASU No. 2014-12 (ASU 2014-12), Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period, which requires that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a

22

---



performance condition. ASU 2014-12 is effective for annual periods and interim periods within those annual periods beginning after December 15, 2015, which is the Company's first quarter of fiscal year 2017. Early adoption is permitted. The adoption of ASU 2014-12 in the first quarter of fiscal 2017 is not expected to have a material impact on the Company's financial condition or results of operations.

#### Revenue Recognition

In May 2014, the FASB issued ASU No. 2014-09 (ASU 2014-09), Revenue from Contracts with Customers, which supersedes nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Additionally, the guidance requires improved disclosures to help users of financial statements better understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period, which is the Company's first quarter of fiscal 2018. Early application is not permitted. The guidance allows for the amendment to be applied either retrospectively to each prior reporting period presented or retrospectively as a cumulative-effect adjustment as of the date of adoption. The Company is in the process of evaluating the impact of adoption on its consolidated financial statements.

#### Discontinued Operations

In April 2014, the FASB issued ASU No. 2014-08 (ASU 2014-08), Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity, which raises the threshold for disposals to qualify as discontinued operations. Under the new guidance, a disposal representing a strategic shift that has (or will have) a major effect on an entity's financial results or a business activity classified as held for sale, should be reported as discontinued operations. ASU 2014-08 also expands the disclosure requirements for discontinued operations and adds new disclosures for individually significant dispositions that do not qualify as discontinued operations. ASU 2014-08 is effective prospectively for fiscal years, and interim reporting periods within those years, beginning after December 15, 2014, which is the Company's first quarter of fiscal year 2016. Early adoption is permitted, but only for disposals (or classifications as held for sale) that have not been reported in the financial statements previously issued or available for issuance. As of January 31, 2015, there have been no disposals or classifications as held for sale that would be subject to ASU 2014-08. As such, the Company will consider the adoption of this standard upon the earlier of a disposal or classification as held for sale.

#### Note 19 – Subsequent Events

On February 16, 2015, the Board of Directors of the Company declared a cash dividend of \$0.40 per outstanding share of common stock. The dividend will be paid on March 10, 2015 to all shareholders of record at the close of business on February 27, 2015.

**ITEM 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations**

This information should be read in conjunction with the unaudited condensed consolidated financial statements and related notes included in Item 1 of this Quarterly Report on Form 10-Q and the audited consolidated financial statements and related notes and Management’s Discussion and Analysis of Financial Condition and Results of Operations contained in our Annual Report on Form 10-K for the fiscal year ended November 1, 2014.

This Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements regarding future events and our future results that are subject to the safe harbor created under the Private Securities Litigation Reform Act of 1995 and other safe harbors under the Securities Act of 1933 and the Securities Exchange Act of 1934. All statements other than statements of historical fact are statements that could be deemed forward-looking statements. These statements are based on current expectations, estimates, forecasts, and projections about the industries in which we operate and the beliefs and assumptions of our management. Words such as “expects,” “anticipates,” “targets,” “goals,” “projects,” “intends,” “plans,” “believes,” “seeks,” “estimates,” “continues,” and “will,” and variations of such words and similar expressions are intended to identify such forward-looking statements. In addition, any statements that refer to projections regarding our future financial performance; our anticipated growth and trends in our businesses; our future capital needs and capital expenditures; our future market position and expected competitive changes in the marketplace for our products; our ability to pay dividends or repurchase stock; our ability to service our outstanding debt; our expected tax rate; the effect of new accounting pronouncements; our ability to successfully integrate acquired businesses and technologies; and other characterizations of future events or circumstances are forward-looking statements. Readers are cautioned that these forward-looking statements are only predictions and are inherently subject to risks, uncertainties, and assumptions that are difficult to predict, including those identified in Part II, Item 1A. “Risk Factors” and elsewhere herein. Therefore, actual results may differ materially and adversely from those expressed in any forward-looking statements. We undertake no obligation to revise or update any forward-looking statements, including to reflect events or circumstances occurring after the date of the filing of this report, except to the extent required by law.

**Results of Operations**

(all tabular amounts in thousands except per share amounts and percentages)

Overview

|                              | Three Months Ended  |                     |           |          |
|------------------------------|---------------------|---------------------|-----------|----------|
|                              | January 31,<br>2015 | February 1,<br>2014 | \$ Change | % Change |
| Revenue                      | \$771,986           | \$628,238           | \$143,748 | 23 %     |
| Gross margin %               | 65.2                | % 65.1              | %         |          |
| Net income                   | \$178,757           | \$152,586           | \$26,171  | 17 %     |
| Net income as a % of revenue | 23.2                | % 24.3              | %         |          |
| Diluted EPS                  | \$0.57              | \$0.48              | \$0.09    | 19 %     |

On July 22, 2014, we completed the acquisition of Hittite Microwave Corporation (Hittite), a company that designs and develops high performance integrated circuits, modules, subsystems and instrumentation for radio frequency, microwave and millimeterwave applications. The total consideration paid to acquire Hittite was approximately \$2.4 billion, financed through a combination of existing cash on hand and a 90-day term loan facility of \$2.0 billion. The acquisition of Hittite is referred to as the Acquisition. See Note 16, Acquisitions, of the Notes to the Condensed Consolidated Financial Statements contained in Item 1 of this Quarterly Report on Form 10-Q for further discussion related to the Acquisition. The results of operations for the three-month period ended January 31, 2015 are inclusive of the Acquisition.

**Revenue Trends by End Market**

The following table summarizes revenue by end market. The categorization of revenue by end market is determined using a variety of data points including the technical characteristics of the product, the “sold to” customer information, the “ship to” customer information and the end customer product or application into which our product will be incorporated. As data systems for capturing and tracking this data evolve and improve, the categorization of products

by end market can vary over time. When this occurs, we reclassify revenue by end market for prior periods. Such reclassifications typically do not materially change the sizing of, or the underlying trends of results within, each end market.

|                | Three Months Ended<br>January 31, 2015 |                  |       | February 1, 2014 |                 |   |
|----------------|--|------------------|-------|------------------|-----------------|---|
|                | Revenue                                | % of<br>Revenue* | Y/Y%  | Revenue          | % of<br>Revenue |   |
| Industrial     | \$349,766                              | 45               | % 21  | % \$288,795      | 46              | % |
| Automotive     | 123,675                                | 16               | % (1) | )% 124,607       | 20              | % |
| Consumer       | 94,835                                 | 12               | % 27  | % 74,429         | 12              | % |
| Communications | 203,710                                | 26               | % 45  | % 140,407        | 22              | % |
| Total revenue  | \$771,986                              | 100              | % 23  | % \$628,238      | 100             | % |

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

Industrial end market revenue increased in the three-month period ended January 31, 2015 as compared to the same period of the prior fiscal year as a result of a broad-based increase in demand in this end market as well as the Acquisition. Communications end market revenue increased in the three-month period ended January 31, 2015 as compared to the same period of the prior fiscal year primarily as a result of the Acquisition and to a lesser extent increased wireless base station deployment activity. Consumer end market revenue increased in the three-month period ended January 31, 2015 as compared to the same period of the prior fiscal year primarily as a result of increased demand for products sold into the portable sector of this end market.

#### Revenue Trends by Geographic Region

Revenue by geographic region, based upon the primary location of our customers' design activity for our products for the three-month periods ended January 31, 2015 and February 1, 2014 were as follows:

| Region                          | Three Months Ended  |                     | \$ Change | % Change |   |
|---------------------------------|---------------------|---------------------|-----------|----------|---|
|                                 | January 31,<br>2015 | February 1,<br>2014 |           |          |   |
| United States                   | \$234,647           | \$182,298           | \$52,349  | 29       | % |
| Rest of North and South America | 23,160              | 19,436              | 3,724     | 19       | % |
| Europe                          | 238,581             | 200,687             | 37,894    | 19       | % |
| Japan                           | 82,668              | 71,091              | 11,577    | 16       | % |
| China                           | 130,719             | 100,484             | 30,235    | 30       | % |
| Rest of Asia                    | 62,211              | 54,242              | 7,969     | 15       | % |
| Total revenue                   | \$771,986           | \$628,238           | \$143,748 | 23       | % |

In the three-month periods ended January 31, 2015 and February 1, 2014, the predominant country comprising "Rest of North and South America" is Canada; the predominant countries comprising "Europe" are Germany, Sweden, France and the United Kingdom; and the predominant countries comprising "Rest of Asia" are South Korea and Taiwan.

On a regional basis, the sales increase in the three-month period ended January 31, 2015 as compared to the same period of the prior fiscal year in all regions was a result of the Acquisition and an increase in demand in most end markets.

#### Gross Margin

|                | Three Months Ended |                  | \$ Change | % Change |   |
|----------------|--------------------|------------------|-----------|----------|---|
|                | January 31, 2015   | February 1, 2014 |           |          |   |
| Gross margin   | \$503,607          | \$409,118        | \$94,489  | 23       | % |
| Gross margin % | 65.2               | % 65.1           | %         |          |   |

Gross margin percentage increased by 10 basis points in the three-month period ended January 31, 2015, as compared to the three-month period ended February 1, 2014, primarily as a result of a mix shift in favor of higher margin products being sold as a result of the Acquisition partially offset by amortization of purchased inventory and

intangibles as a result of the Acquisition.

25

---

## Research and Development (R&amp;D)

|                                | Three Months Ended |                  |           |          |
|--------------------------------|--------------------|------------------|-----------|----------|
|                                | January 31, 2015   | February 1, 2014 | \$ Change | % Change |
| R&D expenses                   | \$151,706          | \$128,591        | \$23,115  | 18 %     |
| R&D expenses as a % of revenue | 19.7 %             | 20.5 %           |           |          |

R&D expenses increased in the three-month period ended January 31, 2015, as compared to the same period of fiscal 2014, primarily as a result of increases in R&D employee and related benefit expenses as well as other operational spending resulting from the Acquisition and, to a lesser extent, an increase in variable compensation expense linked to our overall profitability and revenue growth.

R&D expenses as a percentage of revenue will fluctuate from year-to-year depending on the amount of revenue and the success of new product development efforts, which we view as critical to our future growth. We have hundreds of R&D projects underway, none of which we believe are material on an individual basis. We expect to continue the development of innovative technologies and processes for new products. We believe that a continued commitment to R&D is essential to maintain product leadership with our existing products as well as to provide innovative new product offerings, and we expect to continue to make significant R&D investments in the future.

## Selling, Marketing, General and Administrative (SMG&amp;A)

|                                  | Three Months Ended |                  |           |          |
|----------------------------------|--------------------|------------------|-----------|----------|
|                                  | January 31, 2015   | February 1, 2014 | \$ Change | % Change |
| SMG&A expenses                   | \$120,171          | \$98,178         | \$21,993  | 22 %     |
| SMG&A expenses as a % of revenue | 15.6 %             | 15.6 %           |           |          |

SMG&A expenses increased in the three-month period ended January 31, 2015, as compared to the same period of fiscal 2014 as a result of increases in SMG&A employee and related benefit expenses as well as other operational spending resulting from the Acquisition and an increase in variable compensation expense linked to our overall profitability and revenue growth. In addition, SMG&A expenses increased as a result of an increase in stock based compensation expense of approximately \$3.0 million due to the accelerated vesting of equity awards granted to a former executive officer in accordance with the terms of the applicable equity award agreements and the recording of approximately \$3.1 million of Acquisition-related transition costs.

## Amortization of Intangibles

During the three-month period ended January 31, 2015, we recognized approximately \$23.8 million of amortization expense within operating expenses, primarily resulting from the \$665.5 million of amortizable intangible assets related to the Acquisition. These amortizable intangible assets are being amortized on a straight-line basis over their estimated useful lives.

## Operating Income

|                                    | Three Months Ended |                  |           |          |
|------------------------------------|--------------------|------------------|-----------|----------|
|                                    | January 31, 2015   | February 1, 2014 | \$ Change | % Change |
| Operating income                   | \$207,934          | \$179,609        | \$28,325  | 16 %     |
| Operating income as a % of revenue | 26.9 %             | 28.6 %           |           |          |

The year-over-year increase in operating income in the three-month period ended January 31, 2015 was primarily the result of an increase in revenue of \$143.7 million and a 10 basis point increase in gross margin percentage partially offset by a \$23.7 million increase in amortization of intangibles, a \$23.1 million increase in R&D expenses and a \$22.0 million increase in SMG&A expenses, as more fully described above under the headings Amortization of Intangibles, Research and Development (R&D) and Selling, Marketing, General and Administrative (SMG&A).

## Provision for Income Taxes

|                            | Three Months Ended |                  |           |
|----------------------------|--------------------|------------------|-----------|
|                            | January 31, 2015   | February 1, 2014 | \$ Change |
| Provision for income taxes | \$22,013           | \$23,305         | \$(1,292) |
| Effective income tax rate  | 11.0               | % 13.2           | %         |

Our effective tax rate reflects the applicable tax rate in effect in the various tax jurisdictions around the world where our income is earned.

The tax rate for all periods presented was below the U.S. federal statutory tax rate of 35%, primarily due to lower statutory tax rates applicable to our operations in the foreign jurisdictions in which we earn income. Income from non-U.S. jurisdictions accounted for approximately 78.0% of our total revenues for the three-month period ended January 31, 2015, resulting in a material portion of our pretax income being earned and taxed outside the U.S., primarily in Bermuda and Ireland, at rates ranging from 0% to 35%. The impact on our provision for income taxes of income earned in foreign jurisdictions being taxed at rates different than the U.S. statutory rate was a benefit of approximately \$37.5 million and a foreign effective tax rate of approximately 13.0% in the three-month period ended January 31, 2015, compared to a benefit of approximately \$38.3 million and a foreign effective tax rate of approximately 9.4% for the three-month period ended February 1, 2014. A reduction in the ratio of domestic taxable income to worldwide taxable income effectively lowers the overall tax rate, due to the fact that the tax rates in the majority of foreign jurisdictions where we earn income are significantly lower than the U.S. statutory rate. In addition, our effective income tax rate can be impacted each year by discrete factors or events. Our effective tax rate for the three-month period ended January 31, 2015 included a tax benefit of \$7.0 million from the reinstatement of the U.S. federal research and development tax credit in December 2014 retroactive to January 1, 2014 and a tax benefit of \$3.8 million as a result of an acquisition accounting adjustment. Our effective tax rate for the three-month period ended February 1, 2014 was not significantly impacted by discrete items.

## Net Income

|                              | Three Months Ended |                  |           |          |
|------------------------------|--------------------|------------------|-----------|----------|
|                              | January 31, 2015   | February 1, 2014 | \$ Change | % Change |
| Net Income                   | \$178,757          | \$152,586        | \$26,171  | 17       |
| Net Income as a % of revenue | 23.2               | % 24.3           | %         | %        |
| Diluted EPS                  | \$0.57             | \$0.48           |           |          |

Net income increased 17% in the three-month period ended ended January 31, 2015 as compared to the same period of fiscal 2014 primarily as a result of the \$28.3 million increase in operating income.

## Liquidity and Capital Resources

At January 31, 2015, our principal source of liquidity was \$2.9 billion of cash and cash equivalents and short-term investments, of which approximately \$741.0 million was held in the United States. The balance of our cash and cash equivalents and short-term investments was held outside the United States in various foreign subsidiaries. As we intend to reinvest our foreign earnings indefinitely, this cash held outside the United States is not available to meet our cash requirements in the United States, including cash dividends and common stock repurchases. Our cash and cash equivalents consist of highly liquid investments with maturities of three months or less at the time of acquisition and our short-term investments consist primarily of corporate obligations, such as commercial paper and floating rate notes and bonds. We maintain these balances with high credit quality counterparties, continually monitor the amount of credit exposure to any one issuer and diversify our investments in order to minimize our credit risk.

We believe that our existing sources of liquidity and cash expected to be generated from future operations, together with existing and anticipated available long-term financing, will be sufficient to fund operations, capital expenditures, research and development efforts, dividend payments (if any) and repurchases of our stock (if any) under our stock repurchase program in the immediate future and for at least the next twelve months.





|  | Three Months Ended |                  |
|--|--------------------|------------------|
|  | January 31, 2015   | February 1, 2014 |
| Net cash provided by operating activities            | \$168,653          | \$157,473        |
| Net cash provided by operations as a % of revenue    | 21.8               | % 25.1           |
| Net cash provided by (used for) investing activities | \$46,271           | \$(44,323)       |
| Net cash used for financing activities               | \$(131,280)        | \$(87,308)       |

At January 31, 2015, cash and cash equivalents totaled \$650.2 million. The following changes contributed to the net increase in cash and cash equivalents of \$81.0 million in the three-month period ended January 31, 2015 as compared to the same period in fiscal 2014.

#### Operating Activities

During the three-month period ended January 31, 2015, we generated cash from operating activities of \$168.7 million, an increase compared to the three-month period ended February 1, 2014. Results of operations, after non-cash adjustments to net income, contributed \$251.8 million compared to a contribution of \$182.2 million for the first three months of fiscal 2014. The contribution from results of operations was partially offset by \$58.5 million of net cash outflows from working capital changes.

#### Investing Activities

During the three-month period ended January 31, 2015, cash provided by investing activities was comprised of \$73.9 million in cash received from the net sales of available-for-sale short term investments, partially offset by \$23.8 million of cash payments for property, plant and equipment additions.

#### Financing Activities

During the three-month period ended January 31, 2015, cash used for financing activities included distributions of \$115.1 million to our shareholders in dividend payments and \$59.6 million for the repurchase of 1.2 million shares of our common stock, partially offset by proceeds of \$42.8 million received from the exercise of employee stock options.

#### Working Capital

|                                  | January 31,<br>2015 | November 1,<br>2014 | \$ Change | % Change |
|----------------------------------|---------------------|---------------------|-----------|----------|
| Accounts receivable, net         | \$402,350           | \$396,605           | \$5,745   | 1        |
| Days sales outstanding*          | 47                  | 44                  |           |          |
| Inventory                        | \$367,238           | \$367,927           | \$(689)   | —        |
| Days cost of sales in inventory* | 125                 | 109                 |           |          |

\* We use the average of the current quarter and prior quarter ending net accounts receivable and ending inventory balance in our calculation of days sales outstanding and days cost of sales in inventory, respectively.

The increase in accounts receivable in dollars and in days was primarily the result of higher product shipments in the final month of the first quarter of fiscal 2015 as compared to the final month of the fourth quarter of fiscal 2014. Inventory remained flat as compared to the end of the fourth quarter of fiscal 2014. Days cost of sales in inventory increased from 109 days at the end of the fourth quarter of fiscal 2014 to 125 days at the end of the first quarter of fiscal 2015, primarily as a result of continued manufacturing production to support anticipated higher sales demand. Our inventory levels are impacted by our need to support forecasted sales demand and variations between those forecasts and actual demand.

Current liabilities decreased to \$632.9 million at January 31, 2015 from \$709.1 million at the end of fiscal 2014. This decrease was primarily the result of a decrease in income taxes payable, accounts payable and accrued liabilities.

As of January 31, 2015 and November 1, 2014, we had gross deferred revenue of \$348.2 million and \$349.7 million, respectively, and gross deferred cost of sales of \$70.0 million and \$71.3 million, respectively. Deferred income on shipments to distributors remained flat in the first three months of fiscal 2015 as distributor sales to end customers offset product shipments into the channel during the first quarter of fiscal 2015. Sales to distributors are made under agreements that allow distributors to receive price-adjustment credits and to return qualifying products for credit, as determined by us, in order to reduce the amounts of slow-moving, discontinued or obsolete product from their inventory. Given the uncertainties associated with the levels of price-adjustment credits to be granted to distributors,

the sales price to the distributors is not fixed or determinable

28

---

until the distributors resell the products to their customers. Therefore, we defer revenue recognition from sales to distributors until the distributors have sold the products to their customers. The amount of price-adjustments is dependent on future overall market conditions, and therefore the levels of these adjustments could fluctuate significantly from period to period. To the extent that we experience a significant increase in the amount of credits we issue to our distributors, there could be a material impact on the ultimate revenue and gross margin recognized relating to these transactions.

#### Debt

As of January 31, 2015, we had \$872.9 million of carrying value outstanding on our long-term debt. The difference in the carrying value of the debt and the principal is due to the unamortized discount on these instruments that will accrete to face value of the debt over the term of the debt. Our debt obligations consist of the following:

\$375.0 Million Aggregate Principal Amount of 3.0% Senior Unsecured Notes (2016 Notes)

On April 4, 2011, we issued \$375.0 million aggregate principal amount of 3.0% senior unsecured notes due April 15, 2016 (the 2016 Notes) with semi-annual fixed interest payments due on April 15 and October 15 of each year, commencing October 15, 2011.

\$500.0 Million Aggregate Principal Amount of 2.875% Senior Unsecured Notes (2023 Notes)

On June 3, 2013, we issued \$500.0 million aggregate principal amount of 2.875% senior unsecured notes due June 1, 2023 (the 2023 Notes) with semi-annual fixed interest payments due on June 1 and December 1 of each year, commencing December 1, 2013.

The indentures governing the 2016 Notes and the 2023 Notes contain covenants that may limit our ability to: incur, create, assume or guarantee any debt for borrowed money secured by a lien upon a principal property; enter into sale and lease-back transactions with respect to a principal property; and consolidate with or merge into, or transfer or lease all or substantially all of our assets to, any other party. As of January 31, 2015, we were compliant with these covenants. See Note 14, Debt, of the Notes to our Condensed Consolidated Financial Statements contained in Item 1 of this Quarterly Report on Form 10-Q for further information on our outstanding debt.

#### Revolving Credit Facility

On December 19, 2012, we entered into a five year, \$500.0 million senior unsecured revolving credit facility with certain institutional lenders. To date, we have not borrowed under this credit facility but we may borrow in the future and use the proceeds for repayment of existing indebtedness, stock repurchases, acquisitions, capital expenditures, working capital and other lawful corporate purposes. The terms of the facility impose restrictions on our ability to undertake certain transactions, to create certain liens on assets and to incur certain subsidiary indebtedness. In addition, the credit agreement contains a consolidated leverage ratio covenant of total consolidated funded debt to consolidated earnings before interest, taxes, depreciation, and amortization (EBITDA) of not greater than 3.0 to 1.0. As of January 31, 2015, we were compliant with these covenants.

#### Stock Repurchase Program

Our common stock repurchase program has been in place since August 2004. As of January 31, 2015, in the aggregate, our Board of Directors has authorized us to repurchase \$5.6 billion of our common stock under the program. Under the program, we may repurchase outstanding shares of our common stock from time to time in the open market and through privately negotiated transactions. Unless terminated earlier by resolution of our Board of Directors, the repurchase program will expire when we have repurchased all shares authorized under the program. As of January 31, 2015, we had repurchased a total of approximately 138.1 million shares of our common stock for approximately \$4.9 billion under this program. As of January 31, 2015, an additional \$693.2 million remains available for repurchase of shares under the current authorized program. The repurchased shares are held as authorized but unissued shares of common stock. We also from time to time repurchase shares in settlement of employee tax withholding obligations due upon the vesting of restricted stock units or the exercise of stock options, or in certain limited circumstances to satisfy the exercise price of options granted to our employees under our equity compensation plans. Any future common stock repurchases will be based on several factors, including our financial performance, outlook, liquidity and the amount of cash we have available in the United States.

#### Capital Expenditures

Net additions to property, plant and equipment were \$23.8 million in the first three months of fiscal 2015 and were funded with a combination of cash on hand and cash generated from operations. We expect capital expenditures for fiscal 2015 to be in the range of \$150.0 million to \$165.0 million, of which approximately \$20.0 million relates to new facilities and

29

---

upgrades to existing facilities. These capital expenditures will be funded with a combination of cash on hand and cash generated from operations.

#### Dividends

On February 16, 2015, our Board of Directors declared a cash dividend of \$0.40 per outstanding share of common stock. The dividend will be paid on March 10, 2015 to all shareholders of record at the close of business on February 27, 2015 and is expected to total approximately \$124.7 million. We currently expect quarterly dividends to continue at \$0.40 per share, although they remain subject to determination and declaration by our Board of Directors. The payment of future dividends, if any, will be based on several factors, including our financial performance, outlook and liquidity.

#### Contractual Obligations

There have not been any material changes during the three-month period ended January 31, 2015 to the amounts presented in the table summarizing our contractual obligations included in our Annual Report on Form 10-K for the fiscal year ended November 1, 2014.

#### New Accounting Pronouncements

From time to time, new accounting pronouncements are issued by the Financial Accounting Standards Board (FASB) that are adopted by us as of the specified effective date. Unless otherwise discussed, management believes that the impact of recently issued standards will not have a material impact on our future financial condition and results of operations. See Note 18, New Accounting Pronouncements, of the Notes to our Condensed Consolidated Financial Statements contained in Item 1 of this Quarterly Report on Form 10-Q for a description of recently issued and adopted accounting pronouncements, including the dates of adoption and impact on our historical financial condition and results of operations.

#### Revenue Recognition

In May 2014, the FASB issued ASU No. 2014-09 (ASU 2014-09), Revenue from Contracts with Customers, which supersedes nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Additionally, the guidance requires improved disclosures to help users of financial statements better understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period, which is our first quarter of fiscal 2018. Early application is not permitted. The guidance allows for the amendment to be applied either retrospectively to each prior reporting period presented or retrospectively as a cumulative-effect adjustment as of the date of adoption. We are in the process of evaluating the impact of adoption on our consolidated financial statements.

#### Critical Accounting Policies and Estimates

There were no material changes in the three-month period ended January 31, 2015 to the information provided under the heading "Critical Accounting Policies and Estimates" included in our Annual Report on Form 10-K for the fiscal year ended November 1, 2014.

#### ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

There were no material changes in the three-month period ended January 31, 2015 to the information provided under Item 7A. "Quantitative and Qualitative Disclosures about Market Risk" set forth in our Annual Report on Form 10-K for the fiscal year ended November 1, 2014.

#### ITEM 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures. Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of

January 31, 2015. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's (SEC) rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that

30

---

information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of January 31, 2015, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

(b) Changes in Internal Control over Financial Reporting. No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the quarter ended January 31, 2015 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## PART II — OTHER INFORMATION

### ITEM 1A.

#### Risk Factors

Set forth below and elsewhere in this report and in other documents we file with the SEC are descriptions of certain risks and uncertainties that could cause our actual results to differ materially from the results contemplated by the forward-looking statements contained in this report. Additional risks and uncertainties not presently known to us or that we presently deem less significant may also adversely affect our business. The description below includes any material changes to and supersedes the description of the risk factors affecting our business previously discussed in "Part I, Item 1A Risk Factors" of our Annual Report on Form 10-K for the fiscal year ended November 1, 2014. Disruptions in global credit and financial markets could materially and adversely affect our business and results of operations.

There is significant continuing uncertainty regarding the stability of global credit and financial markets. These economic uncertainties may lead consumers and businesses to postpone spending, which may cause our customers to cancel, decrease or delay their existing and future orders for our products and make it difficult for us to accurately forecast and plan our future business activities. Significant disruption to global credit and financial markets may also adversely affect our ability to access external financing sources on acceptable terms. Financial difficulties experienced by our customers could result in nonpayment or payment delays for previously purchased products, thereby increasing our credit risk exposure. Uncertainty regarding the future stability of the global credit and financial markets could cause the value of the currency in the affected markets to deteriorate, thus reducing the purchasing power of those customers. In addition, financial difficulties experienced by our suppliers or distributors could result in product delays, increased accounts receivable defaults and inventory challenges. During the past few years, many governments adopted stimulus or spending programs designed to ease the economic impact of the crisis. Some of our businesses benefited from these stimulus programs but there can be no assurance that such programs will continue in the future. If economic conditions deteriorate, we may record additional charges relating to restructuring costs or the impairment of assets and our business and results of operations could be materially and adversely affected.

Our future revenue, gross margins, operating results, net income and earnings per share are difficult to predict and may materially fluctuate.

Our future revenue, gross margins, operating results, net income and earnings per share are difficult to predict and may be materially affected by a number of factors, including:

- the effects of adverse economic conditions in the markets in which we sell our products;
- changes in customer demand for our products and/or for end products that incorporate our products;
- our ability to effectively manage our cost structure in both the short term and over a longer duration;
- the timing of new product announcements or introductions by us, our customers or our competitors;
- competitive pricing pressures;
- fluctuations in manufacturing yields, adequate availability of wafers and other raw materials, and manufacturing, assembly and test capacity;

the ability of our third-party suppliers, subcontractors and manufacturers to supply us with sufficient quantities of raw materials, products and/or components;

31

---



- a decline in the U.S. Government defense budget, changes in spending or budgetary priorities, a prolonged U.S. Government shutdown or delays in contract awards;
- a decline in infrastructure spending by foreign governments, including China;
- any significant decline in our backlog;
- the timing, delay, reduction or cancellation of significant customer orders and our ability to manage inventory;
- our ability to recruit, hire, retain and motivate adequate numbers of engineers and other qualified employees to meet the demands of our customers;
- the increasing costs of providing employee benefits, including health insurance, pension plan contributions and retirement benefits;
- changes in geographic, product or customer mix;
- our ability to utilize our manufacturing facilities at efficient levels;
- potential significant litigation-related costs or product warranty and/or indemnity claims, including those not covered by our suppliers or insurers;
- the difficulties inherent in forecasting future operating expense levels, including with respect to costs associated with labor, utilities, transportation and raw materials;
- the costs related to compliance with increasing worldwide government, environmental and social responsibility regulations;
- changes in our effective tax rates in the United States, Ireland or worldwide; and
- the effects of public health emergencies, natural disasters, widespread travel disruptions, security risks, terrorist activities, international conflicts, government sanctions and other events beyond our control.

In addition, the semiconductor market has historically been cyclical and subject to significant economic upturns and downturns. Our business is also subject to rapid technological changes and there can be no assurance (i) that products stocked in our inventory will not be rendered obsolete before we ship them, or (ii) that we will be able to design, develop and produce products in a timely fashion to accommodate changing customer demand. As a result of these and other factors, there can be no assurance that we will not experience material fluctuations in future revenue, gross margins, operating results and net income on a quarterly or annual basis. Our historical financial performance and results of operations should not be relied upon as indicators of future performance or results. In addition, if our revenue, gross margins, operating results and net income do not meet the expectations of securities analysts or investors, the market price of our common stock may decline.

Increases in our effective tax rate and exposure to additional tax liabilities may adversely impact our results of operations.

Our effective tax rate reflects the applicable tax rate in effect in the various tax jurisdictions around the world where our income is earned. Our effective tax rate in 2014 was below the U.S. federal statutory tax rate of 35%, primarily due to lower statutory tax rates applicable to our operations in the foreign jurisdictions in which we earn income. A number of factors may increase our future effective tax rate, including: new or revised tax laws or legislation (including proposed revisions to Irish tax laws) or the interpretation of such laws or legislation by governmental authorities; increases in tax rates in various jurisdictions; variation in the mix of jurisdictions in which our profits are earned and taxed; repatriation of non-U.S. earnings; any adverse resolution of ongoing tax audits or adverse rulings from taxing authorities worldwide; changes in the valuation of our deferred tax assets and liabilities; adjustments to income taxes upon finalization of various tax returns; increases in expenses not deductible for tax purposes, including executive compensation subject to the limitations of Section 162(m) of the Internal Revenue Code and amortization of assets acquired in connection with strategic transactions; decreased availability of tax deductions for stock-based compensation awards worldwide; and changes in available tax credits. Any significant increase in our future effective tax rate could adversely impact our net income during future periods.

Long-term contracts are not typical for us and incorrect forecasts or reductions, cancellations or delays in orders for our products could adversely affect our operating results.

We typically do not have long-term sales contracts with our customers. In certain markets where end-user demand may be particularly volatile and difficult to predict, some customers place orders that require us to manufacture

product and have it available for shipment, even though the customer is unwilling to make a binding commitment to purchase all, or even any, of

32

---

the product. In other instances, we manufacture product based on forecasts of customer demands. Additionally, our U.S. Government contracts and subcontracts may be funded in increments over a number of government budget periods and typically can be terminated by the government for its convenience. As a result, we may incur inventory and manufacturing costs in advance of anticipated sales, and we are subject to the risk of lower than expected orders or cancellations of orders, leading to a sharp reduction of sales and backlog. Further, orders or forecasts for products that meet the customer's unique requirements and that are canceled or unrealized orders would, in addition, result in an inventory of unsaleable products, causing potential inventory write-offs, and we may be unable to recover all of our costs incurred or committed. As a result of lengthy manufacturing cycles for certain of the products that are subject to these uncertainties, the amount of unsaleable product could be substantial. Incorrect forecasts, or reductions, cancellations or delays in orders for our products could adversely affect our operating results.

Our future success depends upon our ability to execute our business strategy, continue to innovate, improve our existing products, design, develop, produce and market new products, and identify and enter new markets.

Our future success significantly depends on our continued ability to execute our business strategy, continue to improve our existing products and design, develop, produce and market innovative new products. Product design, development, innovation and enhancement is often a complex, time-consuming and costly process involving significant investment in research and development, with no assurance of return on investment. There can be no assurance that we will be able to develop and introduce new and improved products in a timely or efficient manner or that new and improved products, if developed, will achieve market acceptance. Our products generally must conform to various evolving and sometimes competing industry standards, which may adversely affect our ability to compete in certain markets or require us to incur significant costs. In addition, our customers generally impose very high quality and reliability standards on our products, which often change and may be difficult or costly to satisfy. Any inability to satisfy customer quality and reliability standards or comply with industry standards and technical requirements may adversely affect demand for our products and our results of operations. In addition, our growth is dependent on our continued ability to identify and penetrate new markets where we have limited experience and competition is intense. Some of our customers in these markets are less established, which could subject us to increased credit risk. There can be no assurance that the markets we serve and/or target based on our business strategy will grow in the future, that our existing and new products will meet the requirements of these markets, that our products will achieve customer acceptance in these markets, that competitors will not force price reductions or take market share from us, or that we can achieve or maintain adequate gross margins or profits in these markets. Furthermore, a decline in demand in one or several of our end-user markets could have a material adverse effect on the demand for our products and our results of operations.

We may not be able to compete successfully in markets within the semiconductor industry in the future.

We face intense technological and pricing competition in the semiconductor industry, and we expect this competition to increase in the future, including from companies located outside of the United States. Many companies have sufficient financial, manufacturing, technical, sales and marketing resources to develop and market products that compete with our products. Some of our competitors may have more advantageous supply or development relationships with our current and potential customers or suppliers. Our competitors also include emerging companies selling specialized products in markets we serve and entities outside of the U.S. Competition is generally based on design and quality of products, product performance, features and functionality, and product pricing, availability and capacity, with the relative importance of these factors varying among products, markets and customers. Existing or new competitors may develop products or technologies that more effectively address the demands of our customers and markets with enhanced performance, features and functionality, lower power requirements, greater levels of integration or lower cost. Increased competition in certain markets has resulted in and may continue to result in declining average selling prices, reduced gross margins and loss of market share in those markets. There can be no assurance that we will be able to compete successfully in the future against existing or new competitors, or that our operating results will not be adversely affected by increased competition.

We rely on third-party suppliers, subcontractors and manufacturers for some industry-standard wafers, manufacturing processes, assembly and test services, and transportation, and we generally cannot control their availability or conditions of supply.

We rely, and plan to continue to rely, on suppliers, assembly and test subcontractors, freight carriers, and third-party wafer fabricators to supply most of our wafers that can be manufactured using industry-standard submicron processes. This reliance involves several risks, including reduced control over availability, capacity utilization, delivery schedules, manufacturing yields, and costs. We currently source approximately 50% of our wafer requirements annually from third-party wafer fabrication foundries, primarily Taiwan Semiconductor Manufacturing Company, or TSMC. In addition, these suppliers often provide manufacturing services to our competitors and therefore periods of increased industry demand may result in capacity constraints. In certain instances, the third-party supplier is the sole source of highly specialized processing services. Additionally, our recently acquired Hittite business utilizes foundries that provide the advanced gallium arsenide, or GaAs,

processes that currently account for most of its wafer purchases. The number of foundries that can provide the GaAs process is limited, and Hittite is currently in the process of transitioning away from one of its principal GaAs foundries. If our suppliers are unable or unwilling to manufacture and deliver components to us on the time schedule and of the quality or quantity that we require or provide us with required manufacturing processes, we may be forced to seek to engage additional or replacement suppliers, which could result in additional expenses and delays in product development or shipment of product to our customers. If additional or replacement suppliers or manufacturing processes are not available, we may also experience delays in product development or shipment which could, in turn, result in the temporary or permanent loss of customers.

The markets for semiconductor products are cyclical, and increased production may lead to overcapacity and lower prices, and conversely, we may not be able to satisfy unexpected demand for our products.

The cyclical nature of the semiconductor industry has resulted in periods when demand for our products has increased or decreased rapidly. If we expand our operations and workforce too rapidly or procure excessive resources in anticipation of increased demand for our products, and that demand does not materialize at the pace at which we expect, or declines, or if we overbuild inventory in a period of decreased demand, our operating results may be adversely affected as a result of increased operating expenses, reduced margins, underutilization of capacity or asset impairment charges. These capacity expansions by us and other semiconductor manufacturers could also lead to overcapacity in our target markets which could lead to price erosion that would adversely impact our operating results. Conversely, during periods of rapid increases in demand, our available capacity may not be sufficient to satisfy the demand. In addition, we may not be able to expand our workforce and operations in a sufficiently timely manner, procure adequate resources and raw materials, or locate suitable third-party suppliers, to respond effectively to changes in demand for our existing products or to the demand for new products requested by our customers, and our current or future business could be materially and adversely affected.

Our semiconductor products are complex and we may be subject to product warranty and indemnity claims, which could result in significant costs and damage to our reputation and adversely affect the market acceptance of our products.

Semiconductor products are highly complex and may contain defects when they are first introduced or as new versions are developed. We generally warrant our products to our customers for one year from the date title passes from us. We invest significant resources in the testing of our products; however, if any of our products contain defects, we may be required to incur additional development and remediation costs, pursuant to warranty and indemnification provisions in our customer contracts and purchase orders. These problems may divert our technical and other resources from other product development efforts and could result in claims against us by our customers or others, including liability for costs associated with product recalls, which may adversely impact our operating results. We may also be subject to customer indemnity claims. Our customers have on occasion been sued, and may be sued in the future, by third parties alleging infringement of intellectual property rights, or damages resulting from use of our products. Those customers may seek indemnification from us under the terms and conditions of our sales contracts with them. In certain cases, our potential indemnification liability may be significant. If any of our products contains defects, or has reliability, quality or compatibility problems, our reputation may be damaged, which could make it more difficult for us to sell our products to existing and prospective customers and could also adversely affect our operating results.

We have manufacturing processes that utilize a substantial amount of technology as the fabrication of integrated circuits is a highly complex and precise process. Minute impurities, contaminants in the manufacturing environment, difficulties in the fabrication process, defects in the masks used in the wafer manufacturing process, manufacturing equipment failures, wafer breakage or other factors can cause a substantial percentage of wafers to be rejected or numerous dice on each wafer to be nonfunctional. While we have significant expertise in semiconductor manufacturing, it is possible that some processes could become unstable. This instability could result in manufacturing delays and product shortages, which could have a material adverse effect on our operating results.

We are involved in frequent litigation, including claims regarding intellectual property rights, which could be costly to bring or defend and could require us to redesign products or pay significant royalties.

The semiconductor industry is characterized by frequent claims and litigation involving patent and other intellectual property rights, including claims arising under our contractual obligations to indemnify our customers. Other companies or individuals have obtained patents covering a variety of semiconductor designs and processes, and we might be required to obtain licenses under some of these patents or be precluded from making and selling infringing products, if those patents are found to be valid and infringed by us. In the event a third party makes a valid intellectual property claim against us and a license is not available to us on commercially reasonable terms, or at all, we could be forced either to redesign or to stop production of products incorporating that intellectual property, and our operating results could be materially and adversely affected. Litigation may be necessary to enforce our patents or other of our intellectual property rights or to defend us against claims of infringement, and this litigation could be costly and divert the attention of our key personnel. We could also be

subject to litigation or arbitration disputes arising under our contractual obligations, as well as indemnity, warranty or product liability claims that could lead to significant costs and expenses as we defend those claims or pay damage awards. There can be no assurance that we are adequately insured to protect against all claims and potential liabilities. We may incur costs and expenses relating to a recall of our customers' products due to an alleged failure of components we supply. An adverse outcome in litigation or arbitration could have a material adverse effect on our financial position or on our operating results or cash flows in the period in which the dispute is resolved.

We may be unable to adequately protect our proprietary intellectual property rights, which may limit our ability to compete effectively.

Our future success depends, in part, on our ability to protect our intellectual property. We primarily rely on patent, mask work, copyright, trademark and trade secret laws, as well as nondisclosure agreements and other methods, to protect our proprietary technologies and processes. Despite our efforts to protect our intellectual property, it is possible that competitors or other unauthorized third parties may obtain, copy, reverse engineer, use or disclose our technologies, products and processes. Moreover, the laws of foreign countries in which we design, manufacture, market and sell our products may afford little or no effective protection of our proprietary intellectual property. There can be no assurance that the claims allowed in our issued patents will be sufficiently broad to protect our technology. In addition, any of our existing or future patents may be challenged, invalidated or circumvented. As such, any rights granted under these patents may not provide us with adequate protection. We may not be able to obtain foreign patents or pending applications corresponding to our U.S. patents and applications. Even if foreign patents are granted, effective enforcement in foreign countries may not be available. If our patents and mask works do not adequately protect our technology, our competitors may be able to offer products similar to ours. Our competitors may also be able to develop similar technology independently or design around our patents.

We generally enter into confidentiality agreements with our employees, consultants and strategic partners. We also try to control access to and distribution of our technologies, documentation and other proprietary information. Despite these efforts, internal or external parties may attempt to copy, disclose, obtain or use our products or technology without our authorization. Also, former employees may seek employment with our business partners, customers or competitors, and there can be no assurance that the confidential nature of our proprietary information will be maintained in the course of such future employment.

A significant disruption in, or breach in security of, our information technology systems could materially and adversely affect our business or reputation.

We rely on information technology systems throughout our Company to keep financial records and customer data, process orders, manage inventory, coordinate shipments to customers, maintain confidential and proprietary information, assist in semiconductor engineering and other technical activities and operate other critical functions such as internet connectivity, network communications and email. Our information technology systems may be susceptible to damage, disruptions or shutdowns due to power outages, hardware failures, telecommunication failures, user errors, catastrophes or other unforeseen events. If we were to experience a prolonged disruption in the information technology systems that involve our internal communications or our interactions with customers or suppliers, it could result in the loss of sales and customers and significant incremental costs, which could adversely affect our business. We may also be subject to security breaches caused by computer viruses, illegal break-ins or hacking, sabotage, or acts of vandalism by third parties. Our security measures or those of our third party service providers may not detect or prevent security breaches. In addition, we provide our confidential and proprietary information to our third-party business partners in certain cases where doing so is necessary to conduct our business. While we employ confidentiality agreements to protect such information, nonetheless those third parties may also be subject to security breaches or otherwise compromise the protection of such information. Security breaches of our information technology systems or those of our partners could result in the misappropriation or unauthorized disclosure of confidential and proprietary information belonging to us or to our employees, partners, customers or suppliers, which could result in our suffering significant financial or reputational damage.

If we do not retain our key personnel, our ability to execute our business strategy will be adversely affected.

Our continued success depends to a significant extent upon the recruitment, retention and effective succession of our executive officers and key management and technical personnel, particularly our experienced engineers. The competition for these employees is intense. The loss of the services of one or more of our key personnel could have a material adverse effect on our operating results. In addition, there could be a material adverse effect on our business should the turnover rates for engineers and other key personnel increase significantly or if we are unable to continue to attract and retain qualified personnel. We do not maintain any key person life insurance policy on any of our officers or employees.



To remain competitive, we may need to invest in or acquire other companies, purchase or license technology from third parties, or enter into other strategic transactions in order to introduce new products or enhance our existing products.

An element of our business strategy involves expansion through the acquisitions of businesses, assets, products or technologies that allow us to complement our existing product offerings, diversify our product portfolio, expand our market coverage, increase our engineering workforce or enhance our technological capabilities. We may not be able to find businesses that have the technology or resources we need and, if we find such businesses, we may not be able to invest in, purchase or license the technology or resources on commercially favorable terms or at all. Acquisitions, investments and technology licenses are difficult to identify and complete for a number of reasons, including the cost of potential transactions, competition among prospective buyers and licensees, the need for regulatory approvals, and difficulties related to integration efforts. Both in the U.S. and abroad, governmental regulation of acquisitions has become more complex, increasing the costs and risks of undertaking significant acquisitions. In order to finance a potential transaction, we may need to raise additional funds by issuing securities or borrowing money. We may not be able to obtain financing on favorable terms, and the sale of our stock may result in the dilution of our existing shareholders or the issuance of securities with rights that are superior to the rights of our common shareholders.

Acquisitions also involve a number of risks, including:

- difficulty or delay integrating acquired technologies, operations and personnel with our existing businesses;
- diversion of management's attention in connection with both negotiating the transaction and integrating the assets;
- strain on managerial and operational resources as management tries to oversee larger or more complex operations;
- the future funding requirements for acquired companies, which may be significant;
- potential loss of key employees;
- exposure to unforeseen liabilities of acquired companies;
- higher than expected or unexpected costs relating to or associated with an acquisition;
- difficulty realizing synergies and growth prospects of an acquisition in a timely manner or at all; and
- increased risk of costly and time-consuming litigation.

If we are unable to successfully address these risks, we may not realize some or all of the expected benefits of the acquisition, which may have an adverse effect on our business strategy, plans and operating results.

We rely on supplies, services and manufacturing capacity located in geologically unstable areas, which could affect our ability to produce products.

We, like many companies in the semiconductor industry, rely on supplies, services, internal manufacturing capacity, wafer fabrication foundries and other subcontractors in geologically unstable locations around the world. Earthquakes, tsunamis, flooding or other natural disasters may disrupt local semiconductor-related businesses and adversely affect manufacturing capacity, availability and cost of key raw materials, utilities and equipment, and availability of key services, including transport of our products worldwide. Our insurance may not adequately cover losses resulting from such disruptions. Any prolonged inability to utilize one of our manufacturing facilities, or those of our subcontractors or third-party wafer fabrication foundries, as a result of fire, flood, natural disaster, unavailability of utilities or otherwise, could result in a temporary or permanent loss of customers for affected products, which could have a material adverse effect on our results of operations and financial condition.

We are exposed to business, economic, political, legal, regulatory and other risks through our significant worldwide operations, which could adversely affect our business, financial condition and results of operations.

We have significant operations and manufacturing facilities outside the United States, including in Ireland and the Philippines. A significant portion of our revenue is derived from customers in international markets, and we expect that international sales will continue to account for a significant portion of our revenue in the future. Risks associated with our international business operations include the following:

- political, legal and economic changes or instability and civil unrest in foreign markets;
- currency conversion risks and exchange rate and interest rate fluctuations;
- limitations on the repatriation of earnings;
- economic disruption from terrorism and threats of terrorism and the response to them by the U.S. and its allies;



- increased managerial complexities, including different employment practices and labor issues;
- greater difficulty enforcing intellectual property rights and weaker laws protecting such rights;
- complex and varying government regulations and legal standards, particularly with respect to price protection, competition practices, export control regulations, customs and tax requirements, anti-boycott regulations, data privacy, intellectual property, anti-corruption and environmental compliance, including U.S. customs and export regulations, including International Traffic in Arms Regulations and the Foreign Corrupt Practices Act;
- natural disasters or pandemics;
- transportation disruptions and delays and increases in labor and transportation costs;
- changes to foreign taxes, tariffs and freight rates;
- trade and travel restrictions or government sanctions, including restrictions imposed by the U.S. government on trading with parties in foreign countries;
- fluctuations in raw material costs and energy costs;
- greater difficulty in accounts receivable collections and longer collection periods; and
- costs associated with our foreign defined benefit pension plans.

Any of these risks, or any other risks related to international business operations, could materially adversely affect our business, financial condition and results of operations.

Many of these risks are present in China. While we expect to continue to expand our business and operations in China, our success in the Chinese markets may be adversely affected by China's continuously evolving laws and regulations, including those relating to taxation, import and export tariffs, currency controls, the environment, indigenous innovation, and intellectual property rights and enforcement and protection of those rights. Enforcement of existing laws or agreements may be inconsistent. In addition, changes in the political environment, governmental policies or U.S.-China relations could result in revisions to laws or regulations or their interpretation and enforcement, exposure of our proprietary intellectual property, increased taxation, and restrictions on imports, import duties or currency revaluations, which could have an adverse effect on our business plans and operating results.

At January 31, 2015, our principal source of liquidity was \$2.9 billion of cash and cash equivalents and short-term investments, of which approximately \$741.0 million was held in the United States and the remaining balance was held outside the United States in various foreign subsidiaries. As we intend to reinvest our foreign earnings indefinitely, this cash held outside the United States is not readily available to meet our cash requirements in the United States. We require a substantial amount of cash in the United States for operating requirements, stock repurchases, cash dividends and acquisitions. If we are unable to address our U.S. cash requirements through operations, through borrowings under our current credit facility, through future debt or equity offerings or from other sources of cash obtained at an acceptable cost, it may be necessary for us to consider repatriation of earnings that are permanently reinvested, and we may be required to pay additional taxes under current tax laws, which could have a material effect on our results of operations and financial condition.

Our operating results are dependent on the performance of independent distributors.

A significant portion of our sales are through independent distributors that are not under our control. These independent distributors generally represent product lines offered by several companies and thus could reduce their sales efforts applied to our products or they could terminate their representation of us. We generally do not require letters of credit from our distributors and are not protected against accounts receivable default or declarations of bankruptcy by these distributors. Our inability to collect open accounts receivable could adversely affect our operating results. Termination of a significant distributor or a group of distributors, whether at our initiative or the distributor's initiative or through consolidation in the distribution industry, could disrupt our current business, and if we are unable to find suitable replacements, our operating results could be adversely affected.

We are subject to environmental, health and safety (EHS) regulations, which could increase our expenses and affect our operating results.

Our industry is subject to EHS requirements, particularly those environmental requirements that control and restrict the sourcing, use, transportation, emission, discharge, storage and disposal of certain chemicals, minerals, elements and materials used or produced in the semiconductor manufacturing process. Public attention to environmental,

sustainability and social responsibility concerns continues to increase, and our customers routinely include stringent environmental and other standards

37

---

in their contracts with us. Changes in EHS laws or regulations may require us to invest in costly equipment or alter the way our products are made and may adversely affect the sourcing, supply and pricing of materials used in our products. In addition, we use hazardous and other regulated materials that subject us to risks of strict liability for damages caused by potential or actual releases of such materials. Any failure to control such materials adequately or to comply with existing or future EHS statutory or regulatory standards, requirements or contractual obligations could result in liability for damages and remediation; the imposition of regulatory penalties and civil and criminal fines; the suspension or termination of the development, manufacture, sale or use of certain of our products; changes to our manufacturing processes or a need to substitute materials that may cost more or be less available; damage to our reputation; and/or increased expenses associated with compliance, each of which could have a material adverse effect on our business and operating results.

If we fail to comply with government contracting regulations, we could suffer a loss of revenue or incur price adjustments or other penalties.

Some of our revenue is derived from contracts with agencies of the United States government and subcontracts with its prime contractors. As a United States government contractor or subcontractor, we are subject to federal contracting regulations, including the Federal Acquisition Regulations, which govern the allowability of costs incurred by us in the performance of United States government contracts. Certain contract pricing is based on estimated direct and indirect costs, which are subject to change. Additionally, the United States government is entitled after final payment on certain negotiated contracts to examine all of our cost records with respect to such contracts and to seek a downward adjustment to the price of the contract if it determines that we failed to furnish complete, accurate and current cost or pricing data in connection with the negotiation of the price of the contract.

In connection with our United States government business, we are also subject to government audits and to review and approval of our policies, procedures, and internal controls for compliance with procurement regulations and applicable laws. In certain circumstances, if we do not comply with the terms of a contract or with regulations or statutes, we could be subject to downward contract price adjustments or refund obligations or could in extreme circumstances be assessed civil and criminal penalties or be debarred or suspended from obtaining future contracts for a specified period of time. Any such suspension or debarment or other sanction could have an adverse effect on our business.

Under some of our government subcontracts, we are required to maintain secure facilities and to obtain security clearances for personnel involved in performance of the contract, in compliance with applicable federal standards. If we were unable to comply with these requirements, or if personnel critical to our performance of these contracts were unable to obtain or maintain their security clearances, we might be unable to perform these contracts or compete for other projects of this nature, which could adversely affect our revenue.

If we are unable to generate sufficient cash flow, we may not be able to service our debt obligations, including making payments on our outstanding senior unsecured notes.

In April 2011, we issued in a public offering \$375.0 million aggregate principal amount of 3.0% senior unsecured notes due April 15, 2016 (the 2016 Notes). In June 2013, we issued in a public offering \$500.0 million aggregate principal amount of 2.875% senior unsecured notes due June 1, 2023 (the 2023 Notes and together with the 2016 Notes, the Notes). Our ability to make payments of principal and interest on our indebtedness when due depends upon our future performance, which will be subject to general economic conditions, industry cycles and financial, business and other factors affecting our consolidated operations, many of which are beyond our control. If we are unable to generate sufficient cash flow from operations in the future to service our outstanding debt, we may be required to, among other things:

- seek additional financing in the debt or equity markets;
- refinance or restructure all or a portion of our indebtedness, including the Notes;
- borrow under our existing revolving credit facility;
- divert funds that would otherwise be invested in our operations;
- repatriate earnings at higher tax rates that are permanently reinvested in foreign locations;
- sell selected assets; or

• reduce or delay planned capital expenditures or operating expenditures.

Such measures might not be sufficient to enable us to service our debt, including the Notes, which could negatively impact our financial results. In addition, any such financing, refinancing or sale of assets might not be possible on economically favorable terms.

Restrictions in our revolving credit facility and outstanding debt instruments may limit our activities.

Our current revolving credit facility and our outstanding senior unsecured notes impose, and future debt instruments to which we may become subject may impose, restrictions that limit our ability to engage in activities that could otherwise benefit our Company, including to undertake certain transactions, to create certain liens on our assets and to incur certain subsidiary indebtedness. Our ability to comply with these financial restrictions and covenants is dependent on our future performance, which is subject to prevailing economic conditions and other factors, including factors that are beyond our control such as foreign exchange rates, interest rates, changes in technology and changes in the level of competition. In addition, our revolving credit facility requires us to maintain compliance with specified financial ratios. If we breach any of the covenants under our revolving credit facility or the indentures governing our outstanding notes and do not obtain appropriate waivers, then, subject to applicable cure periods, our outstanding indebtedness thereunder could be declared immediately due and payable or we may be restricted from further borrowing under our revolving credit facility.

Our stock price may be volatile.

The market price of our common stock has been volatile in the past and may be volatile in the future, as it may be significantly affected by factors including:

• global economic conditions generally;

• crises in global credit, debt and financial markets;

• actual or anticipated fluctuations in our revenue and operating results;

• changes in financial estimates by securities analysts or our failure to perform in line with those estimates or our published guidance;

• changes in market valuations of other semiconductor companies;

• announcements by us or our competitors of significant new products, technical innovations, material transactions, acquisitions or dispositions, litigation or capital commitments;

• departures of key personnel;

• alleged noncompliance with laws, regulations or ethics standards by us or any of our employees, officers or directors; and

• negative media publicity targeting us or our suppliers, customers or competitors.

The stock market has historically experienced volatility, especially within the semiconductor industry, that often has been unrelated to the performance of particular companies. These market fluctuations may cause our stock price to fall regardless of our operating results.

Our directors and executive officers periodically sell shares of our common stock in the market, including pursuant to Rule 10b5-1 trading plans. Regardless of the individual's reasons for such sales, securities analysts and investors could view such sales as a negative indicator and our stock price could be adversely affected as a result.

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds  
Issuer Purchases of Equity Securities

| Period                                      | Total Number of Shares Purchased (a) | Average Price Paid Per Share (b) | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (c) | Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs |
|---|--------------------------------------|----------------------------------|--|--|
| November 2, 2014 through November 29, 2014  | 875,993                              | \$ 50.23                         | 836,132  | \$ 706,200,290   |
| November 30, 2014 through December 27, 2014 | 9,237                                | \$ 55.60                         | —  | \$ 706,200,290   |
| December 28, 2014 through January 31, 2015  | 282,155                              | \$ 53.59                         | 243,134  | \$ 693,195,892   |
| Total                                       | 1,167,385                            | \$ 51.09                         | 1,079,266  | \$ 693,195,892   |

(a) Includes 88,119 shares withheld by us from employees to satisfy minimum employee tax obligations upon vesting of restricted stock units granted to our employees under our equity compensation plans.

(b) The average price paid per share of stock repurchased under the stock repurchase program includes the commissions paid to the brokers. The average price paid for shares in connection with vesting of restricted stock are averages of the closing stock price at the vesting date which is used to calculate the number of shares to be withheld.

(c) Shares repurchased pursuant to the stock repurchase program publicly announced on August 12, 2004. On February 17, 2014, our Board of Directors authorized the repurchase by us of an additional \$570.0 million of our common stock, increasing the total amount of our common stock that we are authorized to repurchase under the program to \$5.6 billion. Under the repurchase program, we may repurchase outstanding shares of our common stock from time to time in the open market and through privately negotiated transactions. Unless terminated earlier by resolution of our Board of Directors, the repurchase program will expire when we have repurchased all shares authorized for repurchase under the repurchase program.

ITEM 6. Exhibits

The exhibits listed in the Exhibit Index immediately preceding the exhibits are filed as part of this Quarterly Report on Form 10-Q and such Exhibit Index is incorporated herein by reference.



SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ANALOG DEVICES, INC.

Date: February 17, 2015

By: /S/ VINCENT T. ROCHE  
Vincent T. Roche  
President and Chief Executive Officer  
(Principal Executive Officer)

Date: February 17, 2015

By: /S/ DAVID A. ZINSNER  
David A. Zinsner  
Senior Vice President, Finance  
and Chief Financial Officer  
(Principal Financial Officer)

Exhibit Index

| Exhibit No. | Description   |
|-------------|---|
| 10.1†       | Employment Agreement between Hittite Microwave Corporation and Rick D. Hess dated March 13, 2013.   |
| 10.2†       | Amendment No. 1 to Employment Agreement with Rick D. Hess dated August 27, 2013.  |
| 10.3        | Amendment No. 2 to Employment Agreement with Rick D. Hess dated April 14, 2014, filed as Exhibit 10.2 to Hittite Microwave Corporation's Quarterly Report on Form 10-Q (File No. 000-51448) as filed with the Commission on May 6, 2014 and incorporated herein by reference. |
| 10.4        | Amendment No. 3 to Employment Agreement with Rick D. Hess dated June 9, 2014, filed as Exhibit d(3) to the Company's Tender Offer Statement on Schedule TO-T (File No. 005-81515) as filed with the Commission on June 23, 2014 and incorporated herein by reference.         |
| 10.5        | Amendment No. 4 to Employment Agreement with Rick D. Hess dated June 9, 2014, filed as Exhibit d(4) to the Company's Tender Offer Statement on Schedule TO-T (File No. 005-81515) as filed with the Commission on June 23, 2014 and incorporated herein by reference.         |
| 10.6†       | Amendment No. 5 to Employment Agreement with Rick D. Hess dated October 31, 2014.   |
| 31.1†       | Certification Pursuant to Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Chief Executive Officer).  |
| 31.2†       | Certification Pursuant to Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Chief Financial Officer).  |
| 32.1†       | Certification Pursuant to 18 U.S.C. Section 1350 (Chief Executive Officer).   |
| 32.2†       | Certification Pursuant to 18 U.S.C. Section 1350 (Chief Financial Officer).   |
| 101.INS     | XBRL Instance Document.**   |
| 101.SCH     | XBRL Schema Document.**   |
| 101.CAL     | XBRL Calculation Linkbase Document.**   |
| 101.LAB     | XBRL Labels Linkbase Document.**  |
| 101.PRE     | XBRL Presentation Linkbase Document.**  |
| 101.DEF     | XBRL Definition Linkbase Document.**  |
| †           | Filed or furnished herewith.  |
| **          | Submitted electronically herewith.  |

Attached as Exhibit 101 to this report are the following formatted in XBRL (Extensible Business Reporting Language): (i) Condensed Consolidated Statements of Income for the three months ended January 31, 2015 and February 1, 2014, (ii) Condensed Consolidated Statements of Comprehensive Income for the three months ended January 31, 2015 and February 1, 2014, (iii) Condensed Consolidated Balance Sheets at January 31, 2015 and November 1, 2014, (iv) Condensed Consolidated Statements of Cash Flows for the three months ended January 31, 2015 and February 1, 2014 and (v) Notes to Condensed Consolidated Financial Statements for the three months ended January 31, 2015.