

ANALOG DEVICES INC
Form 10-Q
May 19, 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 May 2, 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
(Registrant's telephone number, including area code)
(Former name, former address and former fiscal year, if changed since last report)

02062-9106
(Zip Code)

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

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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 May 2, 2015 there were 313,541,685 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		Six Months Ended	
	May 2, 2015	May 3, 2014	May 2, 2015	May 3, 2014
Revenue	\$821,019	\$694,536	\$1,593,005	\$1,322,774
Cost of sales (1)	276,197	235,793	544,576	454,913
Gross margin	544,822	458,743	1,048,429	867,861
Operating expenses:				
Research and development (1)	154,233	136,203	305,939	264,794
Selling, marketing, general and administrative (1)	117,371	102,085	237,542	200,263
Amortization of intangibles	24,210	55	48,006	110
Special charges	—	—	—	2,685
	295,814	238,343	591,487	467,852
Operating income	249,008	220,400	456,942	400,009
Nonoperating expense (income):				
Interest expense	6,880	6,874	13,536	13,445
Interest income	(2,009)	) (3,401)	) (4,053)	) (6,685)
Other, net	(1,052)	) (441)	) 1,500	(10)
	3,819	3,032	10,983	6,750
Income before income taxes	245,189	217,368	445,959	393,259
Provision for income taxes	39,851	29,935	61,864	53,240
Net income	\$205,338	\$187,433	\$384,095	\$340,019
Shares used to compute earnings per share – basic	312,660	313,488	311,967	312,887
Shares used to compute earnings per share – diluted	317,047	318,347	316,365	318,182
Basic earnings per share	\$0.66	\$0.60	\$1.23	\$1.09
Diluted earnings per share	\$0.65	\$0.59	\$1.21	\$1.07
Dividends declared and paid per share	\$0.40	\$0.37	\$0.77	\$0.71
(1) Includes stock-based compensation expense as follows:				
Cost of sales	\$2,207	\$1,417	\$4,599	\$2,974
Research and development	\$6,416	\$4,278	\$13,290	\$9,137
Selling, marketing, general and administrative	\$7,478	\$4,847	\$18,583	\$9,838

See accompanying notes.

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

	Three Months Ended		Six Months Ended		
	May 2, 2015	May 3, 2014	May 2, 2015	May 3, 2014	
Net income	\$205,338	\$187,433	\$384,095	\$340,019	
Foreign currency translation adjustments	1,389	4,600	(7,474	) 3,860
Change in fair value of available-for-sale securities classified as short-term investments (net of taxes of \$92, 527 \$98, \$120 and \$65, respectively)		639	221	471	
Change in fair value of derivative instruments designated as cash flow hedges (net of taxes of \$7,071, \$239, \$7,821 and \$90, respectively)	17,010	2,646	(14,816	) 569
Changes in pension plans including prior service cost, transition obligation, net actuarial loss and foreign currency translation adjustments, (net of taxes of \$281, \$167, \$563 and \$329 respectively)	2,640	(1,396) 19,740	(802)
Other comprehensive income (loss)	21,566	6,489	(2,329	) 4,098
Comprehensive income	\$226,904	\$193,922	\$381,766	\$344,117	

See accompanying notes.

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

	May 2, 2015	November 1, 2014
ASSETS		
Current Assets		
Cash and cash equivalents	\$636,216	\$569,233
Short-term investments	2,438,562	2,297,235
Accounts receivable, net	408,510	396,605
Inventories (1)	394,494	367,927
Deferred tax assets	117,055	128,934
Prepaid income tax	1,707	6,633
Prepaid expenses and other current assets	49,217	45,319
Total current assets	4,045,761	3,811,886
Property, Plant and Equipment, at Cost		
Land and buildings	548,386	495,738
Machinery and equipment	1,879,364	1,880,351
Office equipment	56,667	51,477
Leasehold improvements	51,626	50,782
	2,536,043	2,478,348
Less accumulated depreciation and amortization	1,906,378	1,855,926
Net property, plant and equipment	629,665	622,422
Other Assets		
Deferred compensation plan investments	22,163	21,110
Other investments	17,524	13,397
Goodwill	1,643,614	1,642,438
Intangible assets, net	621,277	671,402
Deferred tax assets	26,263	27,249
Other assets	42,208	49,786
Total other assets	2,373,049	2,425,382
	\$7,048,475	\$6,859,690
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	\$156,300	\$138,967
Deferred income on shipments to distributors, net	295,428	278,435
Income taxes payable	32,626	62,770
Current portion of long-term debt	374,664	—
Accrued liabilities	209,201	228,884
Total current liabilities	1,068,219	709,056
Non-current liabilities		
Long-term debt	498,399	872,789
Deferred income taxes	246,866	235,791
Deferred compensation plan liability	22,163	21,110
Other non-current liabilities	248,620	263,047
Total non-current liabilities	1,016,048	1,392,737
Commitments and contingencies		
Shareholders' Equity		

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Preferred stock, \$1.00 par value, 471,934 shares authorized, none outstanding	—	—
Common stock, \$0.16 2/3 par value, 1,200,000,000 shares authorized, 313,541,685 shares issued and outstanding (311,204,926 on November 1, 2014)	52,258	51,869
Capital in excess of par value	707,180	643,058
Retained earnings	4,375,625	4,231,496
Accumulated other comprehensive loss	(170,855	) (168,526
Total shareholders' equity	4,964,208	4,757,897
	\$7,048,475	\$6,859,690

(1) Includes \$3,066 and \$3,291 related to stock-based compensation at May 2, 2015 and November 1, 2014, respectively.

See accompanying notes.

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

	Six Months Ended	
	May 2, 2015	May 3, 2014
Cash flows from operating activities:		
Net income	\$384,095	\$340,019
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation	63,809	54,794
Amortization of intangibles	49,893	110
Stock-based compensation expense	36,472	21,949
Excess tax benefit-stock options	(15,777)	(12,027)
Deferred income taxes	(9,396)	(1,925)
Other non-cash activity	5,575	2,817
Changes in operating assets and liabilities	(1,987)	(9,840)
Total adjustments	128,589	55,878
Net cash provided by operating activities	512,684	395,897
Cash flows from investing activities:		
Purchases of short-term available-for-sale investments	(2,872,197)	(4,510,237)
Maturities of short-term available-for-sale investments	1,855,561	3,995,075
Sales of short-term available-for-sale investments	875,650	402,086
Additions to property, plant and equipment	(72,989)	(92,181)
Payments for acquisitions, net of cash acquired	(118)	—
Increase in other assets	(8,197)	(9,082)
Net cash used for investing activities	(222,290)	(214,339)
Cash flows from financing activities:		
Dividend payments to shareholders	(239,966)	(221,819)
Repurchase of common stock	(83,911)	(111,577)
Proceeds from employee stock plans	94,883	142,536
Contingent consideration payment	—	(1,773)
Changes in other financing activities	(7,551)	10,964
Excess tax benefit-stock options	15,777	12,027
Net cash used for financing activities	(220,768)	(169,642)
Effect of exchange rate changes on cash	(2,643)	(1,215)
Net increase in cash and cash equivalents	66,983	10,701
Cash and cash equivalents at beginning of period	569,233	392,089
Cash and cash equivalents at end of period	\$636,216	\$402,790
See accompanying notes.		

ANALOG DEVICES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED MAY 2, 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 designed and developed 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 re