

NATIONAL TELEPHONE CO OF VENEZUELA
Form 6-K
July 18, 2002

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, DC 20549

FORM 6-K

Report of Foreign Issuer

Pursuant to Rule 13a-16 or 15d-16 of the
Securities Exchange Act of 1934

For the month of July 2002

NATIONAL TELEPHONE COMPANY OF VENEZUELA (CANTV)

(Translation of Registrant's Name into English)

**EDIFICIO CANTV
AVENIDA LIBERTADOR
CARACAS, VENEZUELA**

(Address of Principal Executive Offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.

Form 20-F Form 40-F

Indicate by check mark whether the registrant by furnishing the information contained in this form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Act of 1934

Yes No

If Yes is marked, indicated below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82 -

This report consists of an English translation of the original Spanish language version of a Venezuelan filing of the revised unaudited financial statements of Compañía Anónima Nacional Teléfonos de Venezuela (CANTV) as of and for the period ended on March 31, 2002, prepared according to Venezuelan GAAP, which differ in certain important respects from US GAAP, as filed with the Venezuela National Commission on Securities on June 17, 2002.

ENGLISH TRANSLATION

Caracas, June 17, 2002

Sirs
Comisión Nacional de Valores
Present.-

Attention: Dra. Aida Lamus
President

Dear Dra. Lamus,

In accordance with the requirements of the Periodic or Occasional Information Reporting Norms to Be Submitted by Individuals Regulated by the Venezuelan National Commission on Securities (Normas Relativas a la Información Periódica u Ocasional que Deben Suministrar las Personas Sometidas al Control de la Comisión Nacional de Valores), attached please find the revised unaudited Financial Statements as of and for the period ended March 31, 2002, which includes its respective notes, that are presented comparative to the previous year ago quarter.

I will make myself available should you need any clarification or additional information.

Sincerely yours,

By: /s/ MARIELA BELMONTE

Mariela Belmonte
Secretary
Board of Directors

**COMPAÑÍA ANÓNIMA NACIONAL TELÉFONOS DE VENEZUELA
(CANTV) AND SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS
as of March 31, 2002 and 2001 and for the three
months ended March 31, 2002 and 2001**

(Translation of financial statements originally issued in Spanish)

COMPañIA ANONIMA NACIONAL TELEFONOS DE VENEZUELA (CANTV) AND SUBSIDIARIES**CONSOLIDATED BALANCE SHEETS AS OF MARCH 31, 2002 AND 2001**
(Adjusted for inflation and expressed in millions of constant bolivars as of March 31, 2002)

	<u>2002</u>	<u>2001</u>
ASSETS		
CURRENT ASSETS:		
Cash and temporary investments	223,585	770,139
Accounts receivable, net	401,387	410,416
Accounts receivable from Venezuelan Government entities	79,010	130,023
Inventories and supplies, net	29,512	42,087
Other current assets	31,106	21,767
	<u>764,600</u>	<u>1,374,432</u>
Property plant and equipment, net	3,219,783	3,705,480
Cellular concession, net	110,017	113,673
Other assets	269,501	274,225
	<u>4,363,901</u>	<u>5,467,810</u>
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Short-term debt	75,948	147,499
Accounts payable	304,042	301,453
Employee severance benefits, net	12,694	12,284
Accrued employee benefits	75,932	178,357
Other current liabilities	305,368	347,515
	<u>773,984</u>	<u>987,108</u>
LONG-TERM LIABILITIES:		
Long-term debt	231,485	291,374
Pension and other postretirement benefit obligations	442,139	422,874
	<u>1,447,608</u>	<u>1,701,356</u>
STOCKHOLDERS EQUITY	<u>2,916,293</u>	<u>3,766,454</u>
Total liabilities and stockholders equity	<u>4,363,901</u>	<u>5,467,810</u>

The accompanying notes are an integral part of these consolidated statements.

(Translation of financial statements originally issued in Spanish)

COMÑÍA ANÓNIMA NACIONAL TELÉFONOS DE VENEZUELA (CANTV) AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE MONTHS ENDED MARCH 31, 2002 AND 2001
(Adjusted for inflation and expressed in millions of constant bolivars
as of March 31, 2002, except earning per share and per ADS amount)

	2002	2001
OPERATING REVENUES:		
Local and domestic long distance usage	117,232	147,256
Basic rent	90,877	94,616
Local and domestic long distance	208,109	241,872
International long distance	24,567	27,537
Net settlements	1,912	5,969
International long distance	26,479	33,506
Fixed to mobile outgoing calls	118,185	168,585
Interconnection incoming	5,992	16,972
Other wireline-related services	39,635	37,762
Total wireline services	398,400	498,697
Wireless services	127,121	89,476
Other	12,903	7,596
Total operating revenues	538,424	595,769
OPERATING EXPENSES:		
Operations, maintenance, repairs and administrative	217,321	240,769
Interconnection costs	49,164	94,545
Depreciation and amortization	189,367	200,087
Concession and other taxes	40,007	33,068
Total operating expenses	495,859	568,469
Operating income	42,565	27,300
OTHER EXPENSES, NET:		
Financing cost, net	14,372	380
Other (expenses) income, net	(8,289)	6,290
Total other expenses, net	6,083	6,670
Income before income	48,648	33,970
INCOME TAX	17,746	15,030
Net income	30,902	18,940
Earnings per share	39	20
Earnings per ADS (based on 7 shares per ADS)	275	143

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Average shares outstanding (in millions)	787	926
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The accompanying notes are an integral part of these consolidated statements.

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(Translation of financial statements originally issued in Spanish)

COMPAÑÍA AMÓNIMA NACIONAL TELÉFONOS DE VENEZUELA (CANTV) AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY
For the Three Months Ended March 31, 2002 and 2001 and Year Ended December 31, 2001
(Adjusted for inflation and expressed in millions of constant bolivars as of March 31, 2002)

	Capital stock			Additional paid-in capital	Retained earnings	Legal reserve	Treasury stock	Cumulative translation adjustment	Total stockholders equity
	Historical cost	Inflation adjustment	Total						
Balance as of December 31, 2000	34,173	1,588,676	1,622,849	21,788	1,955,947	175,212		40,090	3,815,886
Net income					18,940				18,940
Dividends declared					(68,622)				(68,622)
Change in cumulative translation adjustment								250	250
Balance as of March 31, 2001	34,173	1,588,676	1,622,849	21,788	1,906,265	175,212		40,340	3,766,454
Net income					65,763				65,763
Dividends declared					(438,158)				(438,158)
Repurchased shares					(239,963)		(241,832)		(481,795)
Change in cumulative translation adjustment								1,646	1,646
Balance as of December 31, 2001	34,173	1,588,676	1,622,849	21,788	1,293,907	175,212	(241,832)	41,986	2,913,910
Net income					30,902				30,902
Dividends declared					(32,745)				(32,745)
Change in cumulative translation adjustment								4,226	4,226
Balance as of March 31, 2002	34,173	1,588,676	1,622,849	21,788	1,292,064	175,212	(241,832)	46,212	2,916,293

The accompanying notes are an integral part of these consolidated statements.

(Translation of Financial Statements Originally Issued in Spanish)

COMPANIA ANONIMA NACIONAL DE VENEZUELA (CANTV) AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE THREE MONTHS ENDED MARCH 31, 2002 AND 2001
(Adjusted for Inflation and Expressed in Millions of Constant Bolivars as of March 31, 2002)

	<u>2002</u>	<u>2,001</u>		
CASH FLOWS PROVIDED BY OPERATING ACTIVITIES:				
Net income	30,902	18,940		
Adjustments to reconcile net income to net cash provided by operating activities-				
(Gain) loss from net monetary position	(13,137)	1,156		
Exchange loss (gain), net	606	(2,608)		
Depreciation and amortization	189,367	200,087		
Provision for doubtful accounts	12,005	18,139		
Provision for inventories obsolescence		1,453		
Changes in current assets and liabilities:				
Accounts receivable	(45,596)	(19,825)		
Accounts receivable from Venezuelan Government entities	19,524	(9,194)		
Inventories and supplies	5,222	(2,933)		
Other current assets	(20,347)	(5,119)		
Accounts payable	98,461	(16,068)		
Accrued employee benefits	(2,035)	(1,666)		
Other current liabilities	(12,536)	(41,141)		
	<u>262,436</u>	<u>141,221</u>		
Changes in non current assets and liabilities:				
Other assets			Awards and/or units granted	3 \$35.37
Restrictions lapsed		(11)		\$37.99
Awards and/or units forfeited				
Non-vested shares outstanding at May 5, 2007		62		\$34.29

Year-to-Date Activity	Restricted Shares Outstanding	Weighted- Average Grant Date Fair Value Per Share
Non-vested shares outstanding at October 28, 2006	55	\$ 35.35
Awards and/or units granted	18	\$ 33.41
Restrictions lapsed	(11)	\$ 37.99
Awards and/or units forfeited		
Non-vested shares outstanding at May 5, 2007	62	\$ 34.29

As of May 5, 2007, there was \$181.9 million (before tax consideration) of total unrecognized compensation cost related to unvested share-based awards including stock options, restricted stock and restricted stock units. That cost is expected to be recognized over a weighted-average period of 1.8 years.

Note 3 Comprehensive Income

Components of comprehensive income include net income and certain transactions that have generally been reported in the consolidated statement of shareholders' equity and consist of the following:

	Three Months Ended	
	May 5, 2007	April 29, 2006
Net income	\$ 125,356	\$ 145,821
Foreign currency translation adjustments	3,203	734
Change in unrealized holding gains (net of taxes of \$853 and \$635, respectively) on securities classified as short-term investments	1,669	1,179
Change in unrealized holding (losses) gains (net of taxes of \$33 and \$119, respectively) on securities classified as other investments	(61)	(220)
Change in unrealized gains on derivative instruments designated as cash flow hedges	2,233	4,323
Other comprehensive income	7,044	6,016
Comprehensive income	\$ 132,400	\$ 151,837

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	Six Months Ended	
	May 5, 2007	April 29, 2006
Net income	\$ 278,583	\$ 266,378
Foreign currency translation adjustments	5,053	706
Change in unrealized holding gains (net of taxes of \$1,970 and \$1,546, respectively) on securities classified as short-term investments	3,649	2,871
Change in unrealized holding losses (net of taxes of \$80 and \$104, respectively) on securities classified as other investments	(148)	(193)
Change in unrealized gains on derivative instruments designated as cash flow hedges	3,888	7,059
Other comprehensive income	12,442	10,443
Comprehensive income	\$ 291,025	\$ 276,821

The components of accumulated other comprehensive income (loss) at May 5, 2007 and October 28, 2006 consisted of the following:

	May 5, 2007	October 28, 2006
Foreign currency translation adjustment	\$ 14,467	\$ 9,414
Unrealized losses on available-for-sale securities	(1,870)	(5,371)
Unrealized gains on derivative instruments	4,307	419
Minimum pension liability adjustment	(4,669)	(4,669)
Total accumulated other comprehensive income (loss)	\$ 12,235	\$ (207)

Note 4 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, under SFAS 123R, the assumed proceeds under the treasury stock method include the average unrecognized compensation expense of stock options that are in-the-money. This results in the assumed buyback of additional shares, thereby reducing the dilutive impact of 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:

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	Three Months Ended	
	May 5, 2007	April 29, 2006
Basic:		
Net income	\$ 125,356	\$ 145,821
Weighted-average shares outstanding	329,988	364,225
Earnings per share	\$ 0.38	\$ 0.40
Diluted:		
Net income	\$ 125,356	\$ 145,821
Weighted-average shares outstanding	329,988	364,225
Assumed exercise of common stock equivalents	8,852	12,586
Weighted-average common and common equivalent shares	338,840	376,811
Earnings per share	\$ 0.37	\$ 0.39
Anti-dilutive common stock equivalents related to outstanding stock options	52,089	43,982
	Six Months Ended	
	May 5, 2007	April 29, 2006
Basic:		
Net income	\$ 278,583	\$ 266,378
Weighted-average shares outstanding	334,343	365,180
Earnings per share	\$ 0.83	\$ 0.73
Diluted:		
Net income	\$ 278,583	\$ 266,378
Weighted-average shares outstanding	334,343	365,180
Assumed exercise of common stock equivalents	9,681	13,394
Weighted-average common and common equivalent shares	344,024	378,574

Earnings per share	\$ 0.81	\$ 0.70
Anti-dilutive common stock equivalents related to outstanding stock options	54,320	48,160

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Table of Contents**Note 5 Special Charges**

A summary of the Company's special charges is as follows:

Income Statement	Closure of Wafer Fabrication Facility	Reorganization of Product Development and Support Programs	Total Special Charges
Fiscal 2005 Charges:			
Workforce reductions	\$ 20,315	\$ 11,165	\$ 31,480
Total Fiscal 2005 Charges	\$ 20,315	\$ 11,165	\$ 31,480
Fiscal 2006 Charges:			
Facility closure costs	\$	\$ 554	\$ 554
Abandonment of equipment		459	459
Other items		462	462
Change in estimate	(2,029)		(2,029)
Workforce reductions		2,344	2,344
Total Fiscal 2006 Charges	\$ (2,029)	\$ 3,819	\$ 1,790
Fiscal 2007 Charges:			
Facility closure costs	\$ 10,288	\$	\$ 10,288
Workforce reductions		4,165	4,165
Other items		859	859
Total Fiscal 2007 Charges	\$ 10,288	\$ 5,024	\$ 15,312
Accrued Restructuring			
	Closure of Wafer Fabrication Facility	Reorganization of Product Development and Support Programs	Total Special Charges
Balance at October 28, 2006	\$ 5,903	\$ 4,976	\$ 10,879
Special Charges	3,608	1,588	5,196
Severance payments	(4,205)	(1,485)	(5,690)
Facility closure costs	(3,251)		(3,251)
Balance at February 3, 2007	\$ 2,055	\$ 5,079	\$ 7,134
Special Charges	6,680	3,436	10,116

Severance payments	(987)	(1,340)	(2,327)
Facility closure costs	(1,979)	(208)	(2,187)
Balance at May 5, 2007	\$ 5,769	\$ 6,967	\$ 12,736

Closure of Wafer Fabrication Facility

During the fourth quarter of fiscal 2005, the Company recorded a special charge of \$20.3 million as a result of a decision to close its California wafer fabrication operations and transfer virtually all of the production of products manufactured there to the Company's facility in Wilmington, Massachusetts. The charge was for severance and fringe benefit costs that were recorded pursuant to SFAS 88, *Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits* (SFAS 88), under the Company's ongoing benefit plan for 339 manufacturing employees and 28 general and administrative employees at that site. The severance benefit is calculated based on length of past service, and employees must continue to be employed until they are involuntarily terminated in order to receive the severance benefit. The Company completed the remaining cleanup and closure activities during the second quarter of fiscal 2007. As of May 5, 2007, the employment of all of the employees included in this action had been terminated by the Company.

In addition to the charge recorded in the fourth quarter of fiscal 2005, the Company recorded additional expense during fiscal 2006, which consisted of \$18.3 million of non-cash cost of sales expenses for additional depreciation due to shortened useful lives of certain manufacturing equipment and \$2.0 million for stay-on bonuses. The Company reversed approximately \$2.0

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million of its severance accrual during fiscal 2006 because some employees voluntarily left the Company, other employees found alternative employment within the Company, and there was an over accrual related to fringe benefits because severance payments, normally paid as income continuance, were paid as lump sum payments which reduced the benefit costs associated with these payments.

The Company completed production at the wafer fabrication facility on November 9, 2006. During the first quarter of fiscal 2007, the Company recorded additional expense, in accordance with SFAS 146, *Accounting for Costs Associated with Exit or Disposal Activities* (SFAS 146), which consisted of \$3.2 million for clean-up and closure costs that were charged to expense as incurred. The additional \$0.4 million of this charge was for lease obligation costs for a warehouse facility the Company ceased using during the first quarter of fiscal 2007.

During the second quarter of fiscal 2007, the Company recorded a special charge, in accordance with SFAS 146, which consisted of \$1.7 million for clean-up and closure costs that were charged to expense as incurred. Also included in the special charge was \$5.0 million of expense for future lease obligation costs for the wafer fabrication facility that the Company ceased using during the second quarter of fiscal 2007. The clean-up activity was completed during the second quarter of fiscal 2007, and the Company does not expect to incur any additional expenses related to this action. *Reorganization of Product Development and Support Programs*

During the fourth quarter of fiscal 2005, the Company recorded a special charge of \$11.2 million as a result of its decision to reorganize its product development and support programs with the goal of providing greater focus on its analog and digital signal processing product programs. The charge was for severance and fringe benefit costs that were recorded pursuant to SFAS 88 under the Company's ongoing benefit plan or statutory requirements at foreign locations for 60 manufacturing employees and 154 engineering and selling, marketing, general and administrative employees.

During fiscal 2006, the Company recorded an additional special charge of \$3.8 million related to this reorganization action. Approximately \$1.5 million of this charge was for lease obligation costs for a facility the Company ceased using during the first quarter of fiscal 2006 and the write-off of property, plant and equipment and other items at this subsidiary. The remaining \$2.3 million related to severance and fringe benefit costs that were recorded in the fourth quarter pursuant to SFAS 88 under the Company's ongoing benefit plan or statutory requirements at foreign locations for 46 engineering and selling, marketing, general and administrative employees.

During the first quarter of fiscal 2007, the Company recorded an additional special charge of \$1.6 million related to this reorganization action. Approximately \$0.6 million of this charge was for contract termination costs. The remaining \$1.0 million relates to severance and fringe benefit costs that were recorded in the first quarter pursuant to SFAS 88 under the Company's ongoing benefit plan for six engineering employees.

During the second quarter of fiscal 2007, the Company recorded an additional special charge of \$3.4 million related to this reorganization action. Approximately \$0.2 million of this charge was for lease obligation costs for a facility the company ceased using during the second quarter of fiscal 2007. The remaining \$3.2 million relates to the severance and fringe benefit costs that were recorded in the second quarter pursuant to SFAS 88 under the Company's ongoing benefit plan or minimum statutory requirements at foreign locations for 20 engineering and selling, marketing, general and administrative employees.

As of May 5, 2007, 21 of the 286 employees included in this reorganization action were still employed by the Company. These employees must continue to be employed until they are involuntarily terminated in order to receive the severance benefit.

Note 6 Segment Information

The Company operates and tracks its results in one reportable segment. The Company designs, develops, manufactures and markets a broad range of integrated circuits. The Chief Executive Officer has been identified as the Chief Operating Decision Maker as defined by SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information*.

Table of Contents*Revenue Trends 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, or the underlying trends of results within each end market.

	Three Months Ended May 5, 2007			Three Months Ended April 29, 2006	
	Revenue	% of Total Product Revenue	Y/Y %	Revenue	% of Total Product Revenue
Industrial	\$ 288,955	43%	6%	\$ 273,065	42%
Communications	188,505	28%	(1%)	190,782	30%
Consumer	136,478	21%	26%	108,414	17%
Computer	55,194	8%	(23%)	71,611	11%
Total Product Revenue	\$ 669,132	100%	4%	\$ 643,872	100%

	Six Months Ended May 5, 2007			Six Months Ended April 29, 2006	
	Revenue	% of Total Product Revenue	Y/Y %	Revenue	% of Total Product Revenue
Industrial	\$ 579,930	44%	10%	\$ 528,423	42%
Communications	360,190	27%	(6%)	382,304	30%
Consumer	267,104	20%	30%	204,890	16%
Computer	118,522	9%	(21%)	149,557	12%
Total Product Revenue	\$ 1,325,746	100%	5%	\$ 1,265,174	100%

One-time payment associated
with the licensing of IP* 35,000

Total Revenue \$ 1,360,746 \$ 1,265,174

* During the first quarter of fiscal 2007, the Company recorded revenue of \$35 million received in exchange for

licensing of
certain
intellectual
property rights
to a third party.

Table of Contents*Revenue Trends by Product*

The following table summarizes revenue by product categories. The categorization of the Company's products into broad categories is based on the characteristics of the individual products, the specification of the products and in some cases the specific uses that certain products have within applications. The categorization of products into categories is therefore subject to judgment in some cases and can vary over time. In instances where products move between product categories the Company reclassifies the amounts in the product categories for all prior periods. Such reclassifications typically do not materially change the sizing, or the underlying trends of results within each product category.

	Three Months Ended May 5, 2007			Three Months Ended April 29, 2006		
	Revenue	% of Total Product Revenue	Y/Y%	Revenue	% of Total Product Revenue	
Converters	\$ 274,673	41%	7%	\$ 256,471	40%	
Amplifiers	137,187	21%	4%	131,449	20%	
Power management & reference	47,072	7%	(14%)	54,993	9%	
Other analog	98,196	14%	37%	71,592	11%	
Total analog products	\$ 557,128	83%	8%	\$ 514,505	80%	
General purpose DSP	49,447	7%	(1%)	50,014	8%	
Wireless Chipsets	55,339	8%	(18%)	67,742	10%	
Other DSP	7,218	2%	(38%)	11,611	2%	
Total DSP products	\$ 112,004	17%	(13%)	\$ 129,367	20%	
Total Product Revenue	\$ 669,132	100%	4%	\$ 643,872	100%	

	Six Months Ended May 5, 2007			Six Months Ended April 29, 2006		
	Revenue	% of Total Product Revenue	Y/Y%	Revenue	% of Total Product Revenue	
Converters	\$ 538,321	41%	10%	\$ 489,480	39%	
Amplifiers	274,915	21%	9%	252,358	20%	
Power management & reference	98,259	7%	(10%)	109,296	9%	
Other analog	191,974	14%	31%	146,828	11%	
Total analog products	\$ 1,103,469	83%	11%	\$ 997,962	79%	
General purpose DSP	105,147	8%	8%	97,324	8%	
Wireless Chipsets	102,307	8%	(24%)	134,920	11%	
Other DSP	14,823	1%	(58%)	34,968	2%	
Total DSP products	\$ 222,277	17%	(17%)	\$ 267,212	21%	
Total Product Revenue	\$ 1,325,746	100%	5%	\$ 1,265,174	100%	

One-time payment associated with the licensing of IP*	35,000	
Total Revenue	\$ 1,360,746	\$ 1,265,174

* During the first quarter of fiscal 2007, the Company recorded revenue of \$35 million received in exchange for licensing of certain intellectual property rights to a third party.

Revenue Trends by Geographic Region

Product revenue by geographic region, based upon point of sale, for the three and six month periods ended May 5, 2007 and April 29, 2006 are as follows:

Region	Three Months Ended		Six Months Ended	
	May 5, 2007	April 29, 2006	May 5, 2007	April 29, 2006
North America	\$ 162,931	\$ 165,719	\$ 331,586	\$ 322,261
Europe	149,460	139,550	298,481	274,028
Japan	132,036	121,315	255,577	237,333
China	95,416	87,135	178,590	166,594
Rest of Asia	129,289	130,153	261,512	264,958
Total Product Revenue	\$ 669,132	\$ 643,872	\$ 1,325,746	\$ 1,265,174

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The Company annually evaluates goodwill for impairment as well as whenever events or changes in circumstances suggest that the carrying value of goodwill may not be recoverable. Because the Company has one reporting segment under SFAS 142, the Company utilizes the entity-wide approach for assessing goodwill for impairment and compares its market value to its net book value to determine if an impairment exists. No impairment of goodwill resulted from the Company's most recent evaluation of goodwill for impairment, which occurred in the fourth quarter of fiscal 2006. No impairment of goodwill resulted in any of the fiscal years presented. The Company's next annual impairment assessment will be made in the fourth quarter of fiscal 2007 unless indicators arise that would require the Company to reevaluate goodwill for impairment at an earlier date. The following table presents the changes in goodwill during the first six months of fiscal 2007 and the year ended October 28, 2006:

	For the six months ended May 5, 2007	For the year ended October 28, 2006
Balance at beginning of period	\$ 256,209	\$ 163,373
Acquisition of TTPCom assets(1)	4,273	812
Acquisition of Integrant Technologies(2)	9,989	80,641
Acquisition of AudioAsics		7,250
Foreign currency translation adjustment	2,807	4,133
Balance at end of period	\$ 273,278	\$ 256,209

(1) The Company paid its final milestone related to this acquisition in the second quarter of fiscal 2007.

(2) The Company completed the final purchase accounting for this transaction during the first quarter of fiscal 2007, which resulted in an additional \$5.6 million of goodwill. The Company also purchased

additional
outstanding
minority shares
related to this
acquisition
during the
second quarter
of fiscal 2007,
which resulted
in an additional
\$4.4 million of
goodwill.

Intangible Assets

The Company reviews identified 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 measured 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 market value determined by either a quoted market price, if any, or a value determined by utilizing a discounted cash flow technique.

Intangible assets, which will continue to be amortized, consisted of the following:

	May 5, 2007		October 28, 2006	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Technology-based	\$ 54,191	\$ 23,284	\$ 53,177	\$ 17,714
Tradename	1,660	1,195	1,635	995
Customer Relationships	7,157	1,935	6,920	707
Other	6,601	6,243	6,617	6,125
Total	\$ 69,609	\$ 32,657	\$ 68,349	\$ 25,541

Intangible assets acquired prior to the third quarter of fiscal 2006 continue to be amortized on a straight-line basis over their estimated useful lives, which range from five to ten years. The \$43.1 million of intangible assets acquired during the third and fourth quarters of fiscal 2006 are being amortized over their estimated useful lives of five years using an accelerated method of amortization that is expected to reflect the estimated pattern of economic use. The remaining amortization expense will be recognized over a weighted-average period of approximately 1.8 years. Amortization expense related to intangibles was \$3.3 million and \$0.4 million for the three-month periods ended May 5, 2007 and April 29, 2006 respectively, and \$6.9 million and \$0.8 million for the six-month periods ended May 5, 2007 and April 29, 2006, respectively.

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

Fiscal Year	Amortization Expense
Remainder of 2007	\$ 6,292
2008	\$12,438
2009	\$ 9,391
2010	\$ 5,897
2011	\$ 2,746
2012	\$ 188

Note 8 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	
	May 5, 2007	April 29, 2006
Service cost	\$ 2,759	\$ 2,587
Interest cost	2,212	1,766
Expected return on plan assets	(2,384)	(1,738)
Amortization of prior service cost	(9)	28
Amortization of transitional obligation or (asset)	2	(7)
Recognized actuarial loss	203	377
Net periodic pension cost	\$ 2,783	\$ 3,013

	Six Months Ended	
	May 5, 2007	April 29, 2006
Service cost	\$ 5,468	\$ 5,124
Interest cost	4,453	3,494
Expected return on plan assets	(4,811)	(3,437)
Amortization of prior service cost	(17)	56
Amortization of transitional obligation or (asset)	4	(13)
Recognized actuarial loss	399	748
Net periodic pension cost	\$ 5,496	\$ 5,972

Pension contributions of \$2.8 million and \$4.8 million were made by the Company during the three and six months ended May 5, 2007, respectively. The Company presently anticipates contributing an additional \$2.7 million to fund its defined benefit pension plans in fiscal year 2007 for a total of \$7.5 million.

Note 9 Product Warranties

The Company generally offers a 12-month warranty for its products. The Company's warranty policy provides for replacement of the defective product. Specific accruals are recorded for known product warranty issues. Product warranty expenses were not material during any of the three and six month periods ended May 5, 2007 and April 29,

2006.

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Note 10 Commitments and Contingencies

Tentative Settlement of the SEC's Previously Announced Stock Option Investigation

In the Company's 2004 Form 10-K filing, the Company disclosed that the Securities and Exchange Commission (SEC) had initiated an inquiry into its stock option granting practices, focusing on options that were granted shortly before the issuance of favorable financial results. On November 15, 2005, the Company announced that it had reached a tentative settlement with the SEC.

At all times since receiving notice of this inquiry, the Company has cooperated with the SEC. In November 2005, the Company and its President and CEO, Mr. Jerald G. Fishman, made an offer of settlement to the Staff of the SEC. In May 2007, the settlement was finalized with the Staff and we expect that it will be submitted to the Commission for approval; however, the settlement has not yet been considered or approved by the Commission. There can be no assurance a final settlement will be so approved.

The settlement addresses two separate issues. The first issue concerns the Company's disclosure regarding grants of options to employees and directors prior to the release of favorable financial results. Specifically, the issue relates to options granted to employees (including officers) of the Company on November 30, 1999 and to employees (including officers) and directors of the Company on November 10, 2000. The settlement would conclude that the Company should have made disclosures in its proxy filings to the effect that the Company priced these stock options prior to releasing favorable financial results.

The second issue addressed by the settlement concerns the grant dates for options granted to employees (including officers) in 1998 and 1999, and the grant date for options granted to employees (including officers) and directors in 2001. Specifically, the settlement would conclude that the appropriate grant date for the September 4, 1998 options should have been September 8th (which is one trading day later than the date that was used to price the options); the appropriate grant date for the November 30, 1999 options should have been November 29th (which is one trading day earlier than the date that was used); and the appropriate grant date for the July 18, 2001 options should have been July 26th (which is five trading days after the original date).

In connection with the proposed settlement, the Company would consent to a cease-and-desist order under Section 10(b) of the Securities Exchange Act and Rule 10b-5 thereunder, would pay a civil money penalty of \$3 million, and would reprice options granted to Mr. Fishman and other directors in certain years. Options granted to all other employees would be excluded from the repricing. Mr. Fishman would consent to a cease-and-desist order under Sections 17(a)(2) and (3) of the Securities Act, would pay a civil money penalty of \$1 million, and would make a disgorgement payment with respect to options granted in certain years. With the exception of options granted in 1998, Mr. Fishman has not exercised or sold any of the options identified in this matter. The Company and Mr. Fishman would settle this matter without admitting or denying the Commission's findings.

The Company has determined that no restatement of its historical financial results would be necessary due to the proposed settlement because the effects of using revised measurement dates for options granted in 1998, 1999 and 2001 are not material to any of the fiscal years 1998 through 2005 based on the materiality guidelines contained in SAB 99. If a stock-based compensation charge had been taken as a result of the revised measurement dates for these option grants to all employees (including officers) and directors, the net income of the Company for fiscal years 1998 through 2005 would have been reduced by \$21.8 million in total. During this period, the Company earned cumulative net income of over \$2.5 billion. There would be no impact on revenue, cash flow from operations, or shareholders equity as a result of using the revised measurement dates.

The impact on net income in individual fiscal years would have been as follows: fiscal 1998 (\$0.2 million), fiscal 1999 (\$1.4 million), fiscal 2000 (\$1.8 million), fiscal 2001 (\$3.7 million), fiscal 2002 (\$8.1 million), fiscal 2003 (\$6.1 million), fiscal 2004 (\$0.5 million).

Other Legal Proceedings

On June 14, 2005, Biac Corporation filed its first amended complaint for patent infringement in the United States District Court for the Eastern District of Texas against the Company and Intel Corporation, alleging that the Company infringed three patents owned by Biac relating to parallel processors. Prior to the filing of the first amended complaint, the Company was unaware of Biac or this action. The first amended complaint sought injunctive relief, unspecified damages with interest, as well as Biac's costs, expenses and fees. On August 3, 2005, the Company filed

an answer and counterclaimed against Biac. In

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the counterclaim, the Company sought rulings that the patents were not infringed, the patents were invalid and the patents were unenforceable. On November 7, 2005, Biax filed a second amended complaint alleging that the Company infringed two additional patents. The Company filed an answer and counterclaimed that the two additional patents were not infringed, the patents were invalid and the patents were unenforceable. In May 2007, the parties agreed to a settlement of this litigation for which the Company agreed to pay a nominal cash amount to Biax.

In May 2006, the Company received a document subpoena from the U.S. Attorney for the Southern District of New York requesting records from 2000 to the present relating to the Company's granting of stock options. The Company believes that the options at issue in this matter are the same option grants which have been the subject of investigation by the SEC. The Company is cooperating with the office of the U.S. Attorney in connection with this subpoena. The Company cannot predict the outcome of this matter, but believes the disposition of the matter will not have a material adverse effect on the Company or its financial position.

On May 25, 2006, the Company filed a lawsuit in United States District Court for the District of Delaware against Linear Technology Corp. (LTC), alleging infringement of three Company patents by LTC's making, selling and using various products. In addition, the Company also sought a declaratory judgment that its products do not infringe eight patents allegedly owned by LTC (the LTC patents) and that the LTC patents are invalid. On July 28, 2006, LTC filed an answer and counterclaims, denying that its products infringe the asserted Company patents and asking the court to declare such patents invalid. LTC also claimed that the Company, by making, selling and using various power management products, is infringing seven of the eight LTC patents. LTC seeks damages in an unspecified amount and injunctive relief. On August 21, 2006, the Company filed its answer to LTC's counterclaims, denying all liability to LTC. The case is currently in the discovery phase and trial is scheduled to begin in June 2008. The Company intends to vigorously pursue its claims against LTC, and to vigorously defend against LTC's counterclaims. The Company is unable at this time to predict the outcome of this litigation; however, the Company believes that the final disposition of this matter will not have a material adverse effect on the Company or its financial position.

On October 13, 2006, a purported class action complaint was filed in the United States District Court for the District of Massachusetts on behalf of participants in the Company's Investment Partnership Plan from October 5, 2000 to the present. The complaint named as defendants the Company, certain officers and directors, and the Company's Investment Partnership Plan Administration Committee. The complaint alleges purported violations of federal law in connection with the Company's option granting practices during the years 1998, 1999, 2000, and 2001, including breaches of fiduciary duties owed to participants and beneficiaries of the Company's Investment Partnership Plan under the Employee Retirement Income Security Act. The complaint seeks unspecified monetary damages, as well as equitable and injunctive relief. The Company intends to vigorously defend against these allegations. On November 22, 2006, the Company and the individual defendants filed motions to dismiss the complaint. On January 8, 2007, the Plaintiff filed memoranda in opposition. On January 22, 2007, the Company and the individual defendants filed further memoranda in support of the motions to dismiss. Although the Company believes it has meritorious defenses to the asserted claims, it is unable at this time to predict the outcome of this proceeding.

From time to time as a normal incidence of the nature of the Company's business, various claims, charges and litigation are asserted or commenced against the Company arising from, or related to, contractual matters, patents, trademarks, personal injury, environmental matters, product liability, insurance coverage and personnel and employment disputes. As to such claims and litigation the Company can give no assurance that it will prevail.

While the Company does not believe that any of the matters described above will have a material adverse effect on the Company's financial position, an adverse outcome of any of these matters is possible and could have a material adverse effect on the Company's consolidated results of operations or cash flows in the quarter or annual period in which one or more of these matters are resolved.

Note 11 Common Stock Repurchase

Since August 2004, the Company has had a common stock repurchase program in place. On December 6, 2006 the Board of Directors authorized the repurchase by the Company of an additional \$1 billion of the Company's common stock, increasing the total amount of the Company's common stock the Company is authorized to repurchase from \$2 billion to \$3 billion. Under the repurchase 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.

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The Company repurchased approximately 10.3 million shares for approximately \$364.6 million during the second quarter of fiscal 2007. As of May 5, 2007, the Company had repurchased a total of approximately 69.6 million shares of its common stock for approximately \$2.4 billion under this program. The repurchased shares are held as authorized but unissued shares of common stock.

Note 12 Related Party Transactions

One of the Company's directors, who has served on the Company's Board of Directors since 1988, became a director of Taiwan Semiconductor Manufacturing Company, or TSMC, in fiscal 2002 and continues to serve as a director of TSMC. Management believes the terms and prices for the purchases of products from TSMC are not affected by the presence of one of the Company's directors on the Board of Directors of TSMC. The Company purchased approximately \$79 million and \$78 million of products from TSMC during the three-month periods ended May 5, 2007 and April 29, 2006, respectively, and approximately \$152 million and \$141 million during the six-month periods ended May 5, 2007 and April 29, 2006, respectively. Approximately \$22 and \$17 million was payable to TSMC as of May 5, 2007 and October 28, 2006, respectively. Management anticipates that it will make significant purchases from TSMC in the remaining quarters of fiscal year 2007.

Note 13 New Accounting Standards*Accounting for Financial Assets and Financial Liabilities*

In February 2007, the FASB, issued SFAS 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115* (SFAS 159). SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. SFAS 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. The Company is currently evaluating the impact, if any, that SFAS 159 may have on the Company's financial condition, results of operations or liquidity.

Accounting for Prior Year Misstatements

In September 2006, the SEC issued Staff Accounting Bulletin (SAB) No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements* (SAB 108). This SAB provides guidance on the consideration of the effects of prior year misstatements in quantifying current year misstatements for the purpose of a materiality assessment. SAB 108 establishes an approach that requires quantification of financial statement errors based on the effects on each of the company's balance sheet and statement of operations and the related financial statement disclosures. SAB 108 permits existing public companies to record the cumulative effect of initially applying this approach in the first year ending after November 15, 2006 by recording the necessary correcting adjustments to the carrying values of assets and liabilities as of the beginning of that year with the offsetting adjustment recorded to the opening balance of retained earnings. Additionally, the use of the cumulative effect transition method requires detailed disclosure of the nature and amount of each individual error being corrected through the cumulative adjustment and how and when it arose. The adoption of SAB 108 in the first quarter of fiscal 2007 did not have any impact on the Company's financial statements.

Accounting for Defined Benefit Pension and Other Postretirement Plans

In September 2006, the FASB issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans - An Amendment of FASB Statements No. 87, 88, 106, and 132R* (SFAS 158). SFAS 158 requires companies to recognize the funded status of pension and other postretirement benefit plans on sponsoring employers' balance sheets and to recognize changes in the funded status in the year the changes occur. It also requires the measurement date of plan assets and obligations to occur at the end of the employers' fiscal year. SFAS 158 is effective for the Company at the end of fiscal 2007, except for the change in measurement date, which is effective for the Company in fiscal 2008. The effect on the Company's financial statements is dependent upon the discount rate at the Company's fiscal 2007 measurement date (September 30, 2007) and actual returns on the Company's pension plan assets during the year. The Company is currently evaluating the impact, if any, that SFAS 158 may have on the Company's financial conditions, results of operations or liquidity.

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Accounting for Uncertainty in Income Taxes

In June 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* an interpretation of FASB Statement No. 109 (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS 109, *Accounting for Income Taxes*. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company is currently evaluating the impact, if any, that FIN 48 may have on the Company's financial condition or results of operations.

Note 14 Income Taxes

The Company's income tax payable at May 5, 2007 was approximately \$106.5 million, which included approximately \$99 million for current U.S. federal, state and foreign tax filings. The remaining \$7.5 million of income tax payable is for various other income taxes.

During fiscal year 2006, the United States Internal Revenue Service (IRS) invited the Company to participate in the Compliance Assurance Process (CAP) which is a voluntary pilot program the IRS is conducting for a limited number of large business taxpayers. The objective of CAP is to reduce taxpayer burden associated with IRS audits while assuring the IRS of the accuracy of tax returns prior to filing. The Company has agreed to participate in CAP for fiscal 2006 and fiscal 2007. Under the program, the IRS will contemporaneously work with the Company to achieve federal tax compliance and resolve issues prior to the filing of a tax return. CAP is designed to eliminate or substantially reduce the need for post-filing examinations of future tax returns. The routine audit of fiscal years 2004 and 2005 is currently underway.

Note 15 Maxim Litigation Settlement

The Company executed a legal settlement with Maxim Integrated Products, Inc. (Maxim) during the second quarter of fiscal 2007 which resulted in the Company receiving \$19 million. The Company recorded \$8.5 million as a credit to legal expense in Selling, marketing, general and administrative based on concluding that this amount represents the fair value of external legal costs incurred by the Company in this matter. The remaining \$10.5 million has been recorded in Other Income due to our conclusion that the purpose of this litigation was the protection of our intellectual property, not in the ordinary course of business, and we deem it to be an isolated event. This amount is earned in full because the Company has no future obligation to Maxim with respect to this payment.

Note 16 Subsequent Event

On May 21, 2007, the Company's Board of Directors declared a cash dividend of \$0.18 per outstanding share of common stock. The dividend will be paid on June 20, 2007 to all shareholders of record at the close of business on June 1, 2007.

Table of Contents**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 October 28, 2006.

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 harbors created under the Securities Act of 1933 (the Securities Act) and the Securities Exchange Act of 1934 (the Exchange Act). 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, may, variations of such words and similar are intended to identify such forward-looking statements. In addition, any statements that refer to projections of our future financial performance, our anticipated growth and trends in our businesses, 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 subject to risks, uncertainties, and assumptions that are difficult to predict, including those identified in Part II, Item 1A. Risk Factors and elsewhere in our Quarterly Report on Form 10-Q. 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 for any reason.

Results of Operations

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

Overview

	Three Months Ended		Six Months Ended	
	May 5, 2007	April 29, 2006	May 5, 2007	April 29, 2006
Total Revenue	\$ 669,132	\$ 643,872	\$ 1,360,746	\$ 1,265,174
Gross Margin %	57.0%	59.1%	58.7%	58.6%
Net Income	\$ 125,356	\$ 145,821	\$ 278,583	\$ 266,378
Net Income as a % of Total Revenue	18.7%	22.6%	20.5%	21.1%
Diluted EPS	\$ 0.37	\$ 0.39	\$ 0.81	\$ 0.70

Fiscal 2007 is a 53-week year and fiscal 2006 was a 52-week year. The additional week in fiscal 2007 was included in the first quarter ended February 3, 2007. Therefore, the first six months of fiscal 2007 included an additional week of operations as compared to the first six months of fiscal 2006.

Revenue

Revenue in the second quarter of fiscal 2007 increased by \$25.3 million, or 4%, from the amount recorded in the second quarter of fiscal 2006. This increase by end market and by product category is outlined below under *Revenue Trends by End Market* and *Revenue Trends by Product*. Revenue increased by \$95.6 million, or 8%, in the six months ended May 5, 2007 from the comparable period in fiscal 2006. This was primarily the result of an additional week of operations in the first quarter of fiscal 2007 as compared to fiscal 2006 and \$35 million in revenue we recorded in the first quarter of fiscal 2007 in exchange for the licensing of certain intellectual property rights.

Table of Contents*Revenue Trends 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, or the underlying trends of results within each end market.

	Three Months Ended May 5, 2007			Three Months Ended April 29, 2006	
	Revenue	% of Total Product Revenue	Y/Y %	Revenue	% of Total Product Revenue
Industrial	\$ 288,955	43%	6%	\$ 273,065	42%
Communications	188,505	28%	(1%)	190,782	30%
Consumer	136,478	21%	26%	108,414	17%
Computer	55,194	8%	(23%)	71,611	11%
Total Product Revenue	\$ 669,132	100%	4%	\$ 643,872	100%

	Six Months Ended May 5, 2007			Six Months Ended April 29, 2006	
	Revenue	% of Total Product Revenue	Y/Y %	Revenue	% of Total Product Revenue
Industrial	\$ 579,930	44%	10%	\$ 528,423	42%
Communications	360,190	27%	(6%)	382,304	30%
Consumer	267,104	20%	30%	204,890	16%
Computer	118,522	9%	(21%)	149,557	12%
Total Product Revenue	\$ 1,325,746	100%	5%	\$ 1,265,174	100%

One-time payment associated
with the licensing of IP *

35,000

Total Revenue **\$ 1,360,746** **\$ 1,265,174**

* During the first quarter of fiscal 2007, the Company recorded revenue of \$35 million received in exchange for

licensing of
certain
intellectual
property rights
to a third party.

Industrial The year-to-year increases in both the three- and six-month periods were primarily the result of revenue growth of products sold into the instrumentation area of the industrial end market.

Communications The year-to-year decreases in both the three- and six-month periods were a result of a decline in handset chipsets sales as compared to the same periods of fiscal 2006. The decreases were also attributable to the loss of revenue from our DSP-based DSL ASIC and network processor product line that we sold in the second quarter of fiscal 2006. These decreases were partially offset by an increase in revenue from the wireless base station end market.

Consumer The year-to-year increases in both the three- and six-month periods were primarily the result of increased sales of our products into digital home applications, including advanced television systems and video game applications, in the first half of fiscal 2007.

Computer The year-to-year decreases in both the three- and six-month periods were primarily the result of refocusing our power management portfolio toward portable devices and partially attributable to an overall weak personal computer market in the first half of fiscal 2007.

Intellectual Property Revenue During the first quarter of fiscal 2007 we recorded revenue of \$35 million received in exchange for licensing of certain intellectual property rights to a third party.

Table of Contents*Revenue Trends by Product*

The following table summarizes revenue by product categories. The categorization of our products into broad categories is based on the characteristics of the individual products, the specification of the products and in some cases the specific uses that certain products have within applications. The categorization of products into categories is therefore subject to judgment in some cases and can vary over time. In instances where products move between product categories we reclassify the amounts in the product categories for all prior periods. Such reclassifications typically do not materially change the sizing, or the underlying trends of results within each product category.

	Three Months Ended May 5, 2007			Three Months Ended April 29, 2006	
	Revenue	% of Total Product Revenue	Y/Y%	Revenue	% of Total Product Revenue
Converters	\$ 274,673	41%	7%	\$ 256,471	40%
Amplifiers	137,187	21%	4%	131,449	20%
Power management & reference	47,072	7%	(14%)	54,993	9%
Other analog	98,196	14%	37%	71,592	11%
Total analog products	\$ 557,128	83%	8%	\$ 514,505	80%
General purpose DSP	49,447	7%	(1%)	50,014	8%
Wireless chipsets	55,339	8%	(18%)	67,742	10%
Other DSP	7,218	2%	(38%)	11,611	2%
Total DSP products	\$ 112,004	17%	(13%)	\$ 129,367	20%
Total Product Revenue	\$ 669,132	100%	4%	\$ 643,872	100%

	Six Months Ended May 5, 2007			Six Months Ended April 29, 2006	
	Revenue	% of Total Product Revenue	Y/Y%	Revenue	% of Total Product Revenue
Converters	\$ 538,321	41%	10%	\$ 489,480	39%
Amplifiers	274,915	21%	9%	252,358	20%
Power management & reference	98,259	7%	(10%)	109,296	9%
Other analog	191,974	14%	31%	146,828	11%
Total analog products	\$ 1,103,469	83%	11%	\$ 997,962	79%
General purpose DSP	105,147	8%	8%	97,324	8%
Wireless chipsets	102,307	8%	(24%)	134,920	11%
Other DSP	14,823	1%	(58%)	34,968	2%
Total DSP products	\$ 222,277	17%	(17%)	\$ 267,212	21%
Total Product Revenue	\$ 1,325,746	100%	5%	\$ 1,265,174	100%

One-time payment associated with the licensing of IP*	35,000	
Total Revenue	\$ 1,360,746	\$ 1,265,174

* During the first quarter of fiscal 2007, the Company recorded revenue of \$35 million received in exchange for licensing of certain intellectual property rights to a third party.

Table of Contents*Revenue Trends by Geographic Region*

Product revenue by geographic region, based upon point of sale, for the three- and six-month periods ended May 5, 2007 and April 29, 2006 are as follows:

Region	Three Months Ended		Six Months Ended	
	May 5, 2007	April 29, 2006	May 5, 2007	April 29, 2006
North America	\$ 162,931	\$ 165,719	\$ 331,586	\$ 322,261
Europe	149,460	139,550	298,481	274,028
Japan	132,036	121,315	255,577	237,333
China	95,416	87,135	178,590	166,594
Rest of Asia	129,289	130,153	261,512	264,958
Total Product Revenue	\$ 669,132	\$ 643,872	\$ 1,325,746	\$ 1,265,174

Gross Margin

	Three Months Ended		Six Months Ended	
	May 5, 2007	April 29, 2006	May 5, 2007	April 29, 2006
Gross Margin	\$381,638	\$380,671	\$798,658	\$741,458
Gross Margin %	57.0%	59.1%	58.7%	58.6%

Gross margin percentage decreased 210 basis points in the second quarter of fiscal 2007 compared to the second quarter of fiscal 2006. This decrease in gross margin percentage was primarily the result of higher sales in the second quarter of fiscal 2007 of products used in consumer electronics, automobiles and cellular handsets, which currently earn relatively lower gross margins than our average product. Gross margin percentage remained relatively flat in the six months ended May 5, 2007 as compared to the same period of fiscal 2006, as the higher sales of our lower margin consumer products during the first six months of fiscal 2007 was offset by the \$35 million in revenue recorded in the first quarter of fiscal 2007 in exchange for licensing of certain intellectual property rights to a third party with no associated cost of sales.

Stock-Based Compensation Expense

During the first quarter of fiscal 2006, on October 30, 2005, we adopted the Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment*, or SFAS 123R, using the modified prospective application method. Compensation cost is calculated on the date of grant using the fair value of the options as calculated using the Black-Scholes valuation model. The Black-Scholes valuation model requires us to make several assumptions. One of the key assumptions is expected volatility. For options granted prior to fiscal 2005, we used historical volatility to estimate the grant-date fair value of stock options. We changed our method of estimating expected volatility for all stock options granted after fiscal 2004 from exclusively relying on historical volatility to exclusively relying on implied volatility. This change was the result of a thorough review we undertook which included consultations with several third-party advisors. We currently believe that the exclusive use of implied volatility results in a more accurate estimate of the grant-date fair value of employee stock options because it more appropriately reflects the market's expectations of future volatility. Historical volatility during the period commensurate with the expected term of our stock options over the past several years included a period of time during which our stock price experienced unprecedented increases and subsequent declines. We believe that this past stock price volatility is unlikely to be indicative of future stock price behavior.

In the second quarter of fiscal 2007, we recognized \$17.4 million of stock-based compensation expense, or 2.6% of product revenue, as a result of the adoption of SFAS 123R. The adoption of SFAS 123R reduced diluted EPS for the second quarter of fiscal 2007 by \$0.04. For the six months ended May 5, 2007, we recognized \$37.3 million of stock-based compensation expense, or 2.8% of product revenue, as a result of the adoption of SFAS 123R. The

adoption of SFAS 123R reduced diluted EPS for the six-month period ended May 5, 2007 by \$0.08. We expect that stock-based compensation related to our adoption of SFAS 123R will reduce diluted EPS by approximately \$0.04 in the third quarter of fiscal 2007.

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As of May 5, 2007, the total compensation cost related to unvested awards not yet recognized in the statement of income was approximately \$181.9 million (before tax consideration), which we expect to recognize over a weighted-average period of 1.8 years.

See Note 2 to our Consolidated Financial Statements contained in Item 1 of this Quarterly Report on Form 10-Q for further information regarding our adoption of SFAS 123R.

Research and Development

	Three Months Ended		Six Months Ended	
	May 5, 2007	April 29, 2006	May 5, 2007	April 29, 2006
R&D Expenses	\$146,686	\$131,848	290,580	\$263,136
R&D Expenses as a % of Product Revenue	21.9%	20.5%	21.9%	20.8%

Research and development, or R&D, expenses increased \$14.8 million, or 11%, in the second quarter of fiscal 2007 as compared to the second quarter of fiscal 2006. This increase reflects our continued commitment to invest in key product areas and was primarily the result of higher employee salary and benefit expense as a result of an increase in our employee population and salary increases that were effective at the beginning of the second quarter of fiscal 2007. R&D expenses increased \$27.4 million, or 10%, in the first six months of fiscal 2007 as compared to the first six months of fiscal 2006. This increase was primarily the result of the extra week of operations in the first quarter of fiscal 2007. In addition, salary and benefit expense was higher in the first six months of fiscal 2007 compared to the same period of fiscal 2006 as the result of an increase in our employee population and salary increases.

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

Selling, Marketing, General and Administrative

	Three Months Ended		Six Months Ended	
	May 5, 2007	April 29, 2006	May 5, 2007	April 29, 2006
SMG&A Expenses	\$93,045	\$97,432	\$197,726	\$193,713
SMG&A Expenses as a % of Product Revenue	13.9%	15.1%	14.9%	15.3%

Selling, marketing, general and administrative, or SMG&A, expenses decreased \$4.4 million, or 5%, in the second quarter of fiscal 2007 as compared to the second quarter of fiscal 2006. This decrease was primarily the result of the \$8.5 million that we received in the settlement of litigation in the second quarter of fiscal 2007 for the reimbursement of legal expenses, which was partially offset by higher salary expense.

SMG&A expenses increased \$4.0 million, or 2%, in the first six months of fiscal 2007 as compared to the comparable period of fiscal 2006. This increase was primarily the result of the extra week of operations in the first quarter of fiscal 2007 and higher salary expense, partially offset by the \$8.5 million we received in the settlement of litigation in the second quarter of fiscal 2007 for the reimbursement of legal expenses.

Table of Contents*Special Charges**Closure of Wafer Fabrication Facility*

During the fourth quarter of fiscal 2005, we recorded a special charge of \$20.3 million as a result of a decision to close our California wafer fabrication operations and transfer virtually all of the production of products manufactured there to our facility in Wilmington, Massachusetts. The charge was for severance and fringe benefit costs that were recorded pursuant to SFAS 88, *Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits*, or SFAS 88, under our ongoing benefit plan for 339 manufacturing employees and 28 general and administrative employees. The severance benefit was calculated based on length of past service, and employees must continue to be employed until they are involuntarily terminated in order to receive the severance benefit. We completed the remaining cleanup and closure activities during the second quarter of fiscal 2007. As of May 5, 2007, the employment of all of the employees included in this action had been terminated by us.

In addition to the charge recorded in the fourth quarter of fiscal 2005, we recorded additional expense during fiscal 2006, which consisted of \$18.3 million of non-cash cost of sales expenses for additional depreciation due to shortened useful lives of certain manufacturing equipment and \$2.0 million for stay-on bonuses. We reversed approximately \$2.0 million of our severance accrual during fiscal 2006 because some employees voluntarily left the company, other employees found alternative employment within the company, and there was an over accrual related to fringe benefits because severance payments, normally paid as income continuance, were paid as lump sum payments, which reduced the benefit costs associated with these payments.

We ceased production at the wafer fabrication facility on November 9, 2006. During the first quarter of fiscal 2007, we recorded additional expense, in accordance with SFAS 146, *Accounting for Costs Associated with Exit or Disposal Activities*, which consisted of \$3.2 million for clean-up and closure costs that were charged to expense as incurred. The additional \$0.4 million of this charge was for lease obligation costs for a warehouse facility we ceased using during the first quarter of fiscal 2007.

During the second quarter of fiscal 2007, we recorded a special charge, in accordance with SFAS 146, which consisted of \$1.7 million for clean-up and closure costs that were charged to expense as incurred. Also included in this special charge was \$5.0 million of expense for future lease obligation costs for the wafer fabrication facility that we ceased using during the second quarter of fiscal 2007. The clean-up activity was completed during the second quarter of fiscal 2007, and we do not expect to incur any additional expenses related to this action.

The closure of this facility has resulted in annual cost savings of approximately \$50 million per year beginning in fiscal 2007. These annual savings include: approximately \$49 million in cost of sales, of which approximately \$7 million relates to non-cash depreciation savings, and approximately \$1 million in SMG&A expenses. At current demand levels, if this facility were still in operation, the capacity of the facility would be largely underutilized resulting in significant adverse variances associated with the under utilization of our wafer fabrication facilities.

Reorganization of Product Development and Support Programs

During the fourth quarter of fiscal 2005, we recorded a special charge of \$11.2 million as a result of our decision to reorganize our product development and support programs with the goal of providing greater focus on our analog and digital signal processing product programs. The charge was for severance and fringe benefit costs that were recorded pursuant to SFAS 88 under our ongoing benefit plan or statutory requirements at foreign locations for 60 manufacturing employees and 154 engineering and selling, marketing, general and administrative employees.

During fiscal 2006, we recorded an additional special charge of \$3.8 million related to this reorganization action. Approximately \$1.5 million of this charge was for lease obligation costs for a facility we ceased using during the first quarter of fiscal 2006 and the write-off of property, plant and equipment and other items. The remaining \$2.3 million relates to the severance and fringe benefit costs that were recorded in the fourth quarter of fiscal 2006 pursuant to SFAS 88 under our ongoing benefit plan or statutory requirements at foreign locations for 46 engineering and selling, marketing, general and administrative employees.

During the first quarter of fiscal 2007, we recorded an additional special charge of \$1.6 million related to this reorganization action. Approximately \$0.6 million of this charge was for contract termination costs. The remaining \$1.0 million relates to

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severance and fringe benefit costs that were recorded in the first quarter pursuant to SFAS 88 under our ongoing benefit plan for six engineering employees.

During the second quarter of fiscal 2007, we recorded an additional special charge of \$3.4 million related to this reorganization action. Approximately \$0.2 million of this charge was for lease obligation costs for a facility we ceased using during the second quarter of fiscal 2007. The remaining \$3.2 million relates to the severance and fringe benefit costs that were recorded in the second quarter pursuant to SFAS 88 under our ongoing benefit plan or minimum statutory requirements at foreign locations for 20 engineering and selling, marketing, general and administrative employees.

As of May 5, 2007, 21 of the 286 employees included in this reorganization action were still employed by us. These employees must continue to be employed until they are involuntarily terminated in order to receive the severance benefit.

We do not expect to incur any further material charges related to this reorganization action. These organizational changes are expected to result in savings of approximately \$30 million per year once fully completed. These savings are expected to be realized as follows: approximately \$17 million in R&D expenses, approximately \$10 million in SMG&A expenses and approximately \$3 million in cost of sales. A portion of these savings associated with these charges are reflected in our current results.

Operating Income

	Three Months Ended		Six Months Ended	
	May 5, 2007	April 29, 2006	May 5, 2007	April 29, 2006
Operating Income	\$ 131,791	\$ 151,391	\$ 295,040	\$ 283,596
Operating Income as a % of Total Revenue	19.7%	23.5%	21.7%	22.4%

The \$19.6 million decrease in operating income in the second quarter of fiscal 2007 as compared to the second quarter of fiscal 2006 was the result of the following factors: decreases in operating income as the result of a decrease in the gross margin percentage, a \$10.1 million special charge in the second quarter of fiscal 2007 and increases in other operating expenses of approximately \$18 million, partially offset by an increase in operating income from a \$25.3 million increase in revenue and \$8.5 million of reimbursed legal expenses from the settlement of litigation. The increases in other operating expenses are more fully described above under the headings *Research and Development* and *Selling, Marketing, General and Administrative*.

The \$11.4 million increase in operating income in the first six months of fiscal 2007 as compared to the same period of fiscal 2006 was the result of the following factors: an increase in operating income from a \$95.6 million increase in revenue (primarily a result of recording \$35 million in revenue in the first quarter of fiscal 2007 received in exchange for licensing of certain intellectual property rights to a third party) and \$8.5 million of reimbursed legal expenses from the settlement of litigation, partially offset by decreases in operating income as the result of a decrease in the gross margin percentage, a \$14.3 million higher special charge in the second quarter of fiscal 2007 and increases in other operating expenses of approximately \$47 million, as more fully described above under the headings *Research and Development* and *Selling, Marketing, General and Administrative*.

Nonoperating (Income) Expense

	Three Months Ended		Six Months Ended	
	May 5, 2007	April 29, 2006	May 5, 2007	April 29, 2006
Interest expense	\$	\$ 21	\$	\$ 31
Interest income	(20,871)	(25,895)	(45,708)	(49,152)
Other (income) / expense, net	(10,221)	(13,351)	(17,686)	(10,696)
Total nonoperating income	\$ (31,092)	\$ (39,225)	\$ (63,394)	\$ (59,817)

Nonoperating income decreased by \$8.1 million in the second quarter of fiscal 2007 as compared to the same period in the prior fiscal year. We recognized a \$13.0 million gain on the sale of a product line in the second quarter of fiscal 2006. In the second quarter of fiscal 2007, we recorded nonoperating income of \$10.5 million as part of a litigation settlement. Additionally, interest income was lower by \$5 million in the second quarter of fiscal 2007 as compared to the second quarter of fiscal 2006 as a result of lower invested cash balances, which was partially offset by higher interest rates in the second quarter of fiscal 2007 as compared to the second quarter of fiscal 2006.

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The \$3.6 million increase in nonoperating income in the first six months of fiscal 2007 as compared to the same period in the prior fiscal year related to a \$7.9 million gain we recognized from the sale of an investment in the first quarter of fiscal 2007 and a \$10.5 million settlement we received in the second quarter of fiscal 2007. We recognized a \$13.0 million gain on the sale of a product line in the second quarter of fiscal 2006. The impact of lower invested cash balances on interest income in the first half of fiscal 2007 was partially offset by the higher interest rates in the first half of fiscal 2007 as compared to the same period of fiscal 2006.

Provision for Income Taxes

	Three Months Ended		Six Months Ended	
	May 5, 2007	April 29, 2006	May 5, 2007	April 29, 2006
Provision for Income Taxes	\$37,527	\$44,795	\$80,070	\$77,035
Effective Income Tax Rate	23.0%	23.5%	22.3%	22.4%

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 for the second quarter of fiscal 2007 was lower by 0.5% as compared to the same period in the prior fiscal year. This decrease was primarily a result of a tax benefit of \$9.9 million associated with the reinstatement of the U.S. federal research and development tax credit in 2007 that was not available in our second quarter of fiscal 2006 and to a lesser extent by the higher tax rate on the proceeds from the sale of a product line in the second quarter of fiscal 2006. These decreases were partially offset by a higher tax rate on the \$19 million received from the settlement of litigation in the second quarter of fiscal 2007.

Our effective tax rate for the first six months of fiscal 2007 was lower by 0.1% as compared to the first six months of fiscal 2006. This decrease was primarily due to a tax benefit of \$9.9 million from the reinstatement of the U.S. federal research and development tax credit and the cumulative adjustment recorded in the first quarter of fiscal 2007 related to the application of this credit to a portion of our fiscal 2006 results. The tax rate was also lower in the first half of fiscal 2007 due to the higher tax rate on the proceeds from the sale of a product line in the second quarter of fiscal 2006. These items, which had the impact of lowering the tax rate in the first six months of fiscal 2007, were partially offset by the higher tax rate on the \$35 million one-time payment associated with the licensing of intellectual property to a third party, the gain on the sale of an investment of \$7.9 million during the first quarter of fiscal 2007 and the \$19 million received from the settlement of litigation in the second quarter of fiscal 2007.

Net Income

	Three Months Ended		Six Months Ended	
	May 5, 2007	April 29, 2006	May 5, 2007	April 29, 2006
Net Income	\$125,356	\$145,821	\$278,583	\$266,378
Net Income as a % of Total Revenue	18.7%	22.6%	20.5%	21.1%
Diluted EPS	\$0.37	\$0.39	\$0.81	\$0.70

Net income in the second quarter of fiscal 2007 was lower than in the second quarter of fiscal 2006 by approximately \$20.5 million primarily as a result of the \$19.6 million decrease in operating income and the \$8.1 million decrease in nonoperating income, which were partially offset by the lower tax rate.

In the six-month period ended May 5, 2007, net income was higher than in the same period in the prior year by approximately \$12.2 million primarily as a result of the \$11.4 million increase in operating income and the \$3.6 million increase in nonoperating income, which were partially offset by a higher provision for income taxes.

Related Party Transactions

One of our directors, who has served on our Board of Directors since 1988, became a director of Taiwan Semiconductor Manufacturing Company, or TSMC, in fiscal 2002 and continues to serve as a director of TSMC. Management believes the terms and prices for the purchases of products from TSMC are not affected by the presence of one of our directors on the Board of Directors of TSMC. We purchased approximately \$79 million and \$78 million

of products from TSMC during the

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three-month periods ended May 5, 2007 and April 29, 2006, respectively, and approximately \$152 million and \$141 million during the six-month periods ended May 5, 2007 and April 29, 2006, respectively. Approximately \$22 million and \$17 million was payable to TSMC as of May 5, 2007 and October 28, 2006, respectively. Management anticipates that we will make significant purchases from TSMC in the remainder of fiscal year 2007.

Outlook

We are planning for revenues for the third quarter of fiscal 2007 to be in the range of \$655 million to \$685 million. We are also planning for our gross margin percentage for the third quarter of fiscal 2007 to be approximately flat to the second quarter of fiscal 2007. Operating expenses are planned to be flat or slightly higher in the third quarter of fiscal 2007 as a result of our plan to continue increasing R&D spending on new analog products while reducing spending in other areas. Diluted EPS for the third quarter of fiscal 2007 is planned to be in the range of \$0.33 to \$0.37. This estimate of diluted EPS includes approximately \$0.04 per share related to stock-based compensation expense and previously announced acquisition-related expenses.

Liquidity and Capital Resources

	Six Months Ended	
	May 5, 2007	April 29, 2006
Net Cash Provided by Operations	\$446,786	\$380,394
Net Cash Provided by Operations as a % of Total Revenue	32.8%	30.1%

At May 5, 2007, cash, cash equivalents and short-term investments totaled \$1,794.7 million, a decrease of \$333.7 million from the fourth quarter of fiscal 2006. The primary sources of funds for the first six months of fiscal 2007 were net cash generated from operating activities of \$446.8 million and proceeds of \$78.3 million from our various employee stock plans. The principal uses of funds for the first six months of fiscal 2007 were the repurchase of approximately 20.4 million shares of our common stock for an aggregate of \$697.8 million, dividend payments of \$114.3 million and capital expenditures of \$77.4 million.

	May 5, 2007	October 28, 2006
Accounts Receivable	\$332,116	\$ 329,393
Days Sales Outstanding	45	47
Inventory	\$382,177	\$ 378,651
Days Cost of Sales in Inventory	121	128

Accounts receivable at May 5, 2007 increased \$2.7 million, or 1%, from the end of the fourth quarter of fiscal 2006.

Inventory at May 5, 2007 increased by \$3.5 million, or 1%, from the end of fiscal 2006. The increase in inventory was primarily caused by an inventory build to support anticipated higher sales demand.

Net additions to property, plant and equipment were \$77.4 million in the first six months of fiscal 2007 and were funded with a combination of cash on hand and cash generated from operations. Capital expenditures are expected to be approximately \$175 million in fiscal 2007.

On May 21, 2007, our Board of Directors declared a cash dividend of \$0.18 per outstanding share of our common stock. The dividend is payable on June 20, 2007 to shareholders of record on June 1, 2007 and is expected to be approximately \$59 million in the aggregate. The payment of future dividends will be based on several factors including our financial performance, outlook and liquidity. Quarterly dividends are expected to continue at \$0.18 per share, although they remain subject to declaration or change by our Board of Directors.

At May 5, 2007, our principal source of liquidity was \$1,794.7 million of cash and cash equivalents and short-term investments. We believe that our existing sources of liquidity and cash expected to be generated from future operations, together with anticipated available long-term financing, will be sufficient to fund operations, capital expenditures, research and

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development efforts, dividend payments (if any) and purchases of stock (if any) under our stock repurchase program for at least the next twelve months and thereafter for the foreseeable future.

New Accounting Pronouncements*Accounting for Financial Assets and Financial Liabilities*

In February 2007, the Financial Accounting Standards Board (FASB), issued Statement of Financial Accounting Standard (SFAS) 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115* (SFAS 159). SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. SFAS 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. We are currently evaluating the impact, if any, that SFAS 159 may have on our financial condition, results of operations or liquidity.

Accounting for Prior Year Misstatements

In September 2006, the United States Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin (SAB) No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements* (SAB 108). This SAB provides guidance on the consideration of the effects of prior year misstatements in quantifying current year misstatements for the purpose of a materiality assessment. SAB 108 establishes an approach that requires quantification of financial statement errors based on the effects on each of the company's balance sheet and statement of operations and the related financial statement disclosures. SAB 108 permits existing public companies to record the cumulative effect of initially applying this approach in the first year ending after November 15, 2006 by recording the necessary correcting adjustments to the carrying values of assets and liabilities as of the beginning of that year with the offsetting adjustment recorded to the opening balance of retained earnings. Additionally, the use of the cumulative effect transition method requires detailed disclosure of the nature and amount of each individual error being corrected through the cumulative adjustment and how and when it arose. The adoption of SAB 108 in the first quarter of fiscal 2007 did not have any impact on our financial statements.

Accounting for Defined Benefit Pension and Other Postretirement Plans

In September 2006, the FASB issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans - An Amendment of FASB Statements No. 87, 88, 106, and 132R* (SFAS 158). SFAS 158 requires companies to recognize the funded status of pension and other postretirement benefit plans on sponsoring employers' balance sheets and to recognize changes in the funded status in the year the changes occur. It also requires the measurement date of plan assets and obligations to occur at the end of the employers' fiscal year. SFAS 158 is effective for us at the end of fiscal 2007, except for the change in measurement date, which is effective for us in fiscal 2008. The effect on our financial statements is dependent upon the discount rate at our fiscal 2007 measurement date (September 30, 2007) and actual returns on our pension plan assets during the year. We are currently evaluating the impact, if any, that SFAS 158 may have on our financial condition, results of operations or liquidity.

Accounting for Uncertainty in Income Taxes

In June 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109* (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS 109, *Accounting for Income Taxes*. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. We are currently evaluating the impact, if any, that FIN 48 may have on our financial condition or results of operations.

Table of Contents**Critical Accounting Policies and Estimates**

Management's discussion and analysis of the financial condition and results of operations is based upon the consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. We base our estimates and judgments on historical experience, knowledge of current conditions and beliefs of what could occur in the future given available information. We consider the following accounting policies to be both those most important to the portrayal of our financial condition and those that require the most subjective judgment. If actual results differ significantly from management's estimates and projections, there could be a material effect on our financial statements. We also have other policies that we consider key accounting policies, such as our policy for revenue recognition, including the deferral of revenue on sales to distributors until the products are sold to the end user; however, the application of these policies does not require us to make significant estimates or judgments that are difficult or subjective.

Inventory Valuation

Inventories are valued at the lower of cost (first-in, first-out method) or market. Because of the cyclical nature of the semiconductor industry, changes in inventory levels, obsolescence of technology, and product life cycles, we write down inventories to net realizable value. We employ a variety of methodologies to determine the amount of inventory reserves necessary. While a portion of the reserve is determined via reference to the age of inventory and lower of cost or market calculations, an element of the reserve is subject to significant judgments made by us about future demand for our inventory. If actual demand for our products is less than our estimates, additional reserves for existing inventories may need to be recorded in future periods.

Allowance for Doubtful Accounts

We maintain allowances for doubtful accounts, when appropriate, for estimated losses resulting from the inability of our customers to make required payments. If the financial condition of our customers were to deteriorate, our actual losses may exceed our estimates, and additional allowances would be required.

Long-Lived Assets

We review property, plant, and equipment and identified 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 measured 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 market value determined by either a quoted market price, if any, or a value determined by utilizing a discounted cash flow technique. Although we have recognized no material impairment adjustments related to our property, plant, and equipment and identified intangible assets during the past three fiscal years, except those made in conjunction with restructuring actions, deterioration in our business in the future could lead to such impairment adjustments in future periods. Evaluation of impairment of long-lived assets requires estimates of future operating results that are used in the preparation of the expected future undiscounted cash flows. Actual future operating results and the remaining economic lives of our long-lived assets could differ from the estimates used in assessing the recoverability of these assets. These differences could result in impairment charges, which could have a material adverse impact on our results of operations. In addition, in certain instances, assets may not be impaired but their estimated useful lives may have decreased. In these situations, we amortize the remaining net book values over the revised useful lives.

Goodwill

In accordance with SFAS 142, *Goodwill and Other Intangible Assets*, goodwill is subject to annual impairment tests, or earlier if indicators of potential impairment exist and suggest that the carrying value of goodwill may not be recoverable from estimated discounted future cash flows. Because we have one reporting segment under SFAS 142, we utilize the entity-wide approach to assess goodwill for impairment and compare our market value to our net book value to determine if an impairment exists. These impairment tests may result in impairment losses that could have a material adverse impact on our results of operations.

Table of Contents*Accounting for Income Taxes*

We account for income taxes in accordance with SFAS 109, *Accounting for Income Taxes*, which requires that deferred tax assets and liabilities be recognized using enacted tax rates for the effect of temporary differences between the book and tax bases of recorded assets and liabilities. SFAS 109 also requires that deferred tax assets be reduced by a valuation allowance if it is more likely than not that some portion or all of the deferred tax asset will not be realized. We evaluate the realizability of our deferred tax assets quarterly. At May 5, 2007, we had gross deferred tax assets of \$206.1 million primarily resulting from temporary differences between the book and tax bases of assets and liabilities. We have conducted an assessment of the likelihood of realization of those deferred tax assets and concluded that a \$44.9 million valuation allowance is needed to reserve the amount of the deferred tax assets that may not be realized due to the expiration of state credit carryovers. In reaching our conclusion, we evaluated certain relevant criteria including the existence of deferred tax liabilities that can be used to absorb deferred tax assets, the taxable income in prior carryback years that can be used to absorb net operating losses and taxable income in future years. Our judgments regarding future profitability may change due to future market conditions, changes in U.S. or international tax laws and other factors. These changes, if any, may require material adjustments to these deferred tax assets, resulting in a reduction in net income or an increase in net loss in the period when such determinations are made. 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 and royalty arrangements among related entities. Although we believe our estimates are reasonable, no assurance can be given that the final tax outcome of these matters will not be different than that which is reflected in our historical income tax provisions and accruals. Such differences could have a material impact on our income tax provision and operating results in the period in which such determination is made.

Stock-Based Compensation

The adoption of SFAS 123R in the first quarter of fiscal 2006 requires that stock-based compensation expense associated with stock options and related awards be recognized in the statement of income, rather than being disclosed in a pro forma footnote to the consolidated financial statements. Determining the amount of stock-based compensation to be recorded requires us to develop estimates to be used in calculating the grant-date fair value of stock options. We calculate the grant-date fair values using the Black-Scholes valuation model. The use of valuation models requires us to make estimates of the following assumptions:

Expected volatility We are responsible for estimating volatility and have considered a number of factors, including third-party estimates, when estimating volatility. For options granted prior to fiscal 2005, we used historical volatility to estimate the grant-date fair value of stock options. We changed our method of estimating expected volatility for all stock options granted after fiscal 2004 from exclusively relying on historical volatility to exclusively relying on implied volatility. This change was the result of a thorough review we undertook which included consultations with several third-party advisors. We currently believe that the exclusive use of implied volatility results in a more accurate estimate of the grant-date fair value of employee stock options because it more appropriately reflects the market's expectations of future volatility. Historical volatility during the period commensurate with the expected term of our stock options over the past several years included a period of time that our stock price experienced unprecedented increases and subsequent declines. We believe that this past stock price volatility is unlikely to be indicative of future stock price behavior. Options in our stock are actively traded on several exchanges. Implied volatility is calculated for the period that is commensurate with the option's expected term assumption. Because this term often exceeds the period for which there are exchange-traded options in our stock, statistical techniques are used to derive the implied volatility for traded options with terms commensurate with the option's expected term of 5.1 years. This calculation of implied volatility is derived from the closing prices of our stock and exchange traded options from the most recent five trading days prior to the grant date of the employee stock option. In general, the higher the expected volatility used in the Black-Scholes valuation model, the higher the grant-date fair value of the option.

Expected term We use historical employee exercise and option expiration data to estimate the expected term assumption for the Black-Scholes grant date valuation. We believe that this historical data is currently the best estimate of the expected term of a new option, and that generally, all of our employees exhibit similar exercise behavior. In general, the longer the expected term used in the Black-Scholes valuation model, the higher the

grant-date fair value of the option.

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.

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Expected dividend yield Expected dividend yield is calculated by annualizing the cash dividend declared by our Board of Directors for the current quarter and dividing that result by the closing stock price on the date of grant of the option. Until such time as our 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.

The amount of stock-based compensation expense recognized during a period is based on the value of the portion of the awards that are ultimately expected to vest. SFAS 123R requires forfeitures to be 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 option. Based on an analysis of our historical forfeitures, we have applied an annual forfeiture rate of 3.4% to all unvested stock-based awards as of May 5, 2007. The 3.4% represents the portion that is expected to be forfeited each year 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 awards that vest.

Contingencies

From time to time, we receive notices that our products or manufacturing processes may be infringing the patent or intellectual property rights of others. We periodically assess each matter to determine if a contingent liability should be recorded in accordance with SFAS 5, *Accounting for Contingencies*. In making this determination, we may, depending on the nature of the matter, consult with internal and external legal counsel and technical experts. Based on the information we obtain, combined with our judgment regarding all the facts and circumstances of each matter, we determine whether it is probable that a contingent loss may be incurred and whether the amount of such loss can be reasonably estimated. If a loss is probable and reasonably estimable, we record a contingent loss in accordance with SFAS 5. In determining the amount of a contingent loss, we consider advice received from experts in the specific matter, current status of legal proceedings, settlement negotiations that may be ongoing, prior case history and other factors. If the judgments and estimates made by us are incorrect, we may need to record additional contingent losses that could materially adversely impact our results of operations. See Note 10 to our Consolidated Financial Statements contained in Item 1 of this Quarterly Report on Form 10-Q for additional information regarding our commitments and contingencies.

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ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes in the information provided under Item 7A. Qualitative and Quantitative Disclosures about Market Risk set forth in our Annual Report on Form 10-K for the year ended October 28, 2006.

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 Analog's disclosure controls and procedures as of May 5, 2007. 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 SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures 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 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 May 5, 2007, 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 May 5, 2007 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II OTHER INFORMATION

ITEM 1. Legal Proceedings

Tentative Settlement of the SEC's Previously Announced Stock Option Investigation

In our 2004 Form 10-K filing, we disclosed that the Securities and Exchange Commission (SEC) had initiated an inquiry into our stock option granting practices, focusing on options that were granted shortly before the issuance of favorable financial results. On November 15, 2005, we announced that we had reached a tentative settlement with the SEC.

At all times since receiving notice of this inquiry, we have cooperated with the SEC. In November 2005, we and our President and CEO, Mr. Jerald G. Fishman, made an offer of settlement to the Staff of the SEC. In May 2007, the settlement was finalized with the Staff and we expect that it will be submitted to the Commission for approval; however, the settlement has not yet been considered or approved by the Commission. There can be no assurance a final settlement will be so approved.

The settlement addresses two separate issues. The first issue concerns our disclosure regarding grants of options to employees and directors prior to the release of favorable financial results. Specifically, the issue relates to options granted to our employees (including officers) on November 30, 1999 and to our employees (including officers) and directors on November 10, 2000. The settlement would conclude that we should have made disclosures in our proxy filings to the effect that we priced these stock options prior to releasing favorable financial results.

The second issue addressed by the settlement concerns the grant dates for options granted to employees (including officers) in 1998 and 1999, and the grant date for options granted to employees (including officers) and directors in 2001. Specifically, the settlement would conclude that the appropriate grant date for the September 4, 1998 options should have been September 8th (which is one trading day later than the date that was used to price the options); the appropriate grant date for the November 30, 1999 options should have been November 29th (which is one trading day earlier than the date that was used); and the appropriate grant date for the July 18, 2001 options should have been July 26th (which is five trading days after the original date).

In connection with the proposed settlement, we would consent to a cease-and-desist order under Section 10(b) of the Securities Exchange Act and Rule 10b-5 thereunder, would pay a civil money penalty of \$3 million, and would reprice options granted to Mr. Fishman and other directors in certain years. Options granted to all other employees would be excluded from the repricing. Mr. Fishman would consent to a cease-and-desist order under Sections 17(a)(2) and (3) of the Securities Act, would pay a civil money penalty of \$1 million, and would make a disgorgement payment with respect to options granted in certain years. With the exception of options granted in 1998, Mr. Fishman has not exercised or sold any of the options identified in this matter. We and Mr. Fishman would settle this matter without admitting or denying the Commission's findings.

We have determined that no restatement of our historical financial results would be necessary due to the proposed settlement because the effects of using revised measurement dates for options granted in 1998, 1999 and 2001 are not material to any of the fiscal years 1998 through 2005 based on the materiality guidelines contained in SAB 99. If a stock-based compensation charge had been taken as a result of the revised measurement dates for these option grants to all employees (including officers) and directors, our net income for fiscal years 1998 through 2005 would have been reduced by \$21.8 million in total. During this period, we earned cumulative net income of over \$2.5 billion. There would be no impact on revenue, cash flow from operations, or shareholders' equity as a result of using the revised measurement dates. The impact on net income in individual fiscal years would have been as follows: fiscal 1998 (\$0.2 million), fiscal 1999 (\$1.4 million), fiscal 2000 (\$1.8 million), fiscal 2001 (\$3.7 million), fiscal 2002 (\$8.1 million), fiscal 2003 (\$6.1 million), fiscal 2004 (\$0.5 million).

Other Legal Proceedings

On June 14, 2005, Biac Corporation filed its first amended complaint for patent infringement in the United States District Court for the Eastern District of Texas against us and Intel Corporation, alleging that we infringed three patents owned by Biac relating to parallel processors. Prior to the filing of the first amended complaint, we were unaware of Biac or this action. The first amended complaint sought injunctive relief, unspecified damages with interest, as well as Biac's costs, expenses and fees. On August 3, 2005, we filed an answer and counterclaimed against Biac. In the counterclaim, we sought rulings that the patents were not infringed, the patents were invalid and the

patents were unenforceable. On November 7, 2005, Biax filed a second amended complaint alleging that we infringed two additional patents. We filed an answer and counterclaimed that the

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two additional patents were not infringed, the patents were invalid and the patents were unenforceable. In May 2007, the parties agreed to a settlement of this litigation for which we agreed to pay a nominal cash amount to Biax. In May 2006, we received a document subpoena from the U.S. Attorney for the Southern District of New York requesting records from 2000 to the present relating to our granting of stock options. We believe that the options at issue in this matter are the same option grants which have been the subject of investigation by the SEC. We are cooperating with the office of the U.S. Attorney in connection with this subpoena. We cannot predict the outcome of this matter, but believe the disposition of the matter will not have a material adverse effect on us or our financial position.

On May 25, 2006, we filed a lawsuit in United States District Court for the District of Delaware against Linear Technology Corp. (LTC) alleging infringement of three of our patents by LTC s making, selling and using various products. In addition, we also sought a declaratory judgment that our products do not infringe eight patents allegedly owned by LTC (the LTC patents) and that the LTC patents are invalid. On July 28, 2006, LTC filed an answer and counterclaims, denying that its products infringe the asserted patents and asking the court to declare such patents invalid. LTC also claimed that we, by making, selling and using various power management products, are infringing seven of the eight LTC patents. LTC seeks damages in an unspecified amount and injunctive relief. On August 21, 2006, we filed our answer to LTC s counterclaims, denying all liability to LTC. The case is currently in the discovery phase and trial is scheduled to begin in June 2008. We intend to vigorously pursue our claims against LTC, and to vigorously defend against LTC s counterclaims. We are unable at this time to predict the outcome of this litigation; however, we believe that the final disposition of this matter will not have a material adverse effect on us or our financial position.

On October 13, 2006, a purported class action complaint was filed in the United States District Court for the District of Massachusetts on behalf of participants in our Investment Partnership Plan from October 5, 2000 to the present. The complaint named as defendants us, certain officers and directors, and our Investment Partnership Plan Administration Committee. The complaint alleges purported violations of federal law in connection with our option granting practices during the years 1998, 1999, 2000, and 2001, including breaches of fiduciary duties owed to participants and beneficiaries of our Investment Partnership Plan under the Employee Retirement Income Security Act. The complaint seeks unspecified monetary damages, as well as equitable and injunctive relief. We intend to vigorously defend against these allegations. On November 22, 2006, we and the individual defendants filed motions to dismiss the complaint. On January 8, 2007, the Plaintiff filed memoranda in opposition. On January 22, 2007, we and the individual defendants filed further memoranda in support of the motions to dismiss. Although we believe we have meritorious defenses to the asserted claims, we are unable at this time to predict the outcome of this proceeding.

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ITEM 1A. RISK FACTORS

Set forth below and elsewhere in this report and in other documents we file with the SEC are descriptions of the 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. The description below includes any material changes to and supersedes the description of the risk factors affecting our business previously disclosed in Part I, Item 1A. Risk Factors of our Annual Report on Form 10-K for the fiscal year ended October 28, 2006 and Part II, Item 1A. Risk Factors of our Quarterly Report on Form 10-Q for the quarter ended February 3, 2007.

Our future revenue, gross margins and operating results are difficult to predict and may materially fluctuate.

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

changes in customer demand for our products and for end products that incorporate our products;

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 risk that our backlog could decline significantly;

the timing, delay or cancellation of significant customer orders and our ability to manage inventory;

our ability to hire, retain and motivate adequate numbers of engineers and other qualified employees to meet the demands of our customers;

changes in geographic, product or customer mix;

potential significant litigation-related costs;

the difficulties inherent in forecasting future operating expense levels;

the costs related to compliance with increasing worldwide environmental regulations;

the effect of adverse changes in economic conditions in the United States and international markets; and

the effects of public health emergencies, natural disasters, terrorist activities, international conflicts and other events beyond our control.

In addition, the semiconductor market has historically been cyclical and subject to significant economic downturns. Our business is subject to rapid technological changes and there can be no assurance, depending on the mix of future business, that products stocked in inventory will not be rendered obsolete before we ship them. 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 and operating results on a quarterly or annual basis. In addition, if our revenue, gross margins and operating results do not meet the expectations of securities analysts or investors, the market price of our common stock may decline.

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

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 the product. At any given time, this situation could affect a portion of our backlog. As a result, we may incur inventory and manufacturing costs in advance of anticipated sales and are subject to the risk of cancellations of orders leading to a sharp reduction of sales and backlog. Further, those orders may be for products that meet the customer's unique requirements so that those canceled orders would, in addition, result in an inventory of unsaleable

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products, resulting in potential inventory write-offs. 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. Reductions, cancellations or delays in orders for our products could adversely affect our operating results.

Our future success depends upon our ability to continue to improve our products, develop and market new products, and identify and enter new markets.

Our success significantly depends on our continued ability to improve our products and develop and market new products. Product development and enhancement is often a complex, time-consuming and costly process involving significant investment in research and development. 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 such customer quality 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. There can be no assurance that the markets we serve 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 prices to an unacceptably low level or take market share from us, or that we can achieve or maintain 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. Also, some of our customers in these markets are less established, which could subject us to increased credit risk.

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

Many other companies offer products that compete with our products. Some have greater financial, manufacturing, technical and marketing resources than we have. Some of our competitors may have better established supply or development relationships with our current and potential customers. Additionally, some formerly independent competitors have been purchased by larger companies. Our competitors also include emerging companies selling specialized products in markets we serve. Competition is based on design and quality of products, product performance, features and functionality, and price, 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 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 such 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 price competition.

We rely on third-party subcontractors and manufacturers for some industry-standard wafers and assembly/test services, and therefore cannot control their availability or conditions of supply.

We rely, and plan to continue to rely, on assembly and test subcontractors and on 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, quality assurance and costs. Additionally, we utilize third-party wafer fabricators as sole-source suppliers, primarily Taiwan Semiconductor Manufacturing Company. These suppliers manufacture components in accordance with our proprietary designs and specifications. We have no written supply agreements with these sole-source suppliers and purchase our custom components through individual purchase orders. In addition, these suppliers often provide manufacturing services to our competitors and therefore periods of increased industry demand may result in capacity constraints. If these sole-source suppliers are unable or unwilling to manufacture and deliver sufficient quantities of components to us on the time schedule and of the quality that we require, 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.

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We may not be able to satisfy increasing demand for our products, and increased production may lead to overcapacity and lower prices.

The cyclical nature of the semiconductor industry has resulted in sustained and short-term periods when demand for our products has increased or decreased rapidly. During these periods of rapid increases in demand, our available capacity may not be sufficient to satisfy the available demand. In addition, we may not be able to expand our workforce and operations in a sufficiently timely manner, procure adequate resources, 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. Conversely, if we expand our operations and workforce too rapidly or procure excessive resources in anticipation of increased demand for our products, and such demand does not materialize at the pace at which we expect, our operating results may be adversely affected. 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. *Our revenue may not increase enough to offset the expense of additional capacity.*

We, and the semiconductor industry generally, expand production facilities and access to third-party foundries in response to periods of increased demand which can cause operating expenses to increase. Should customer demand fail to increase or should we enter a period of reduced customer demand, our financial position and results of operations could be adversely impacted as a result of increased operating expenses, reduced margins, underutilization of capacity or asset impairment charges.

Our semiconductor products are complex and may contain undetected defects which could result in significant costs, claims and damage to our reputation, and adversely affect the market acceptance of our products.

Semiconductor products are highly complex and may contain undetected defects when they are first introduced or as new versions are developed. 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, including pursuant to indemnification provisions in our customer contracts. 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. 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 adversely affect our operating results.

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

Our 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 proprietary technologies and processes, it is possible that competitors or other unauthorized third parties may obtain, copy, use or disclose our technologies 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 technology.

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 meaningful protection. We may not have 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 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. 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 the infringing products, if such patents are found to be valid. There can be no assurance that we would be able to obtain licenses, if required, upon commercially reasonable terms, or at all.

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, services or

technology without our

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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.

We are involved in frequent litigation, including 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. We have received from time to time, and may receive in the future, claims from third parties asserting that our products or processes infringe their patents or other intellectual property rights. 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 be subject to warranty or product liability claims that could lead to significant costs and expenses as we defend such claims or pay damage awards. While we maintain product liability insurance, there can be no assurance that such insurance will be available or adequate to protect against all such claims. We may incur costs and expenses relating to a recall of one of our customers' products containing one of our products. See Note 10 in the Notes to our Consolidated Financial Statements contained in Item 1 of this Quarterly Report on Form 10-Q for information concerning certain pending litigation that involves us. An adverse outcome in these matters or other litigation could have a material adverse effect on our consolidated financial position or on our consolidated results of operations or cash flows in the period in which the litigation is resolved.

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

Our success depends to a significant extent upon the continued service of our executive officers and key management and technical personnel, particularly our experienced engineers, and on our ability to continue to attract, retain and motivate qualified personnel. 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 us should the turnover rates for engineers and other key personnel increase significantly or if we are unable to continue to attract 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 acquire other companies or purchase or license technology from third parties in order to introduce new products and services or enhance our existing products and services.

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, 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, may not be able to purchase or license the technology or resources on commercially favorable terms or at all. Acquisitions 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 and the need for regulatory approvals. In order to finance a potential transaction, we may need to raise additional funds by selling our stock or borrowing money. We may not be able to find 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 stockholders. Acquisitions also involve a number of risks, including:

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difficulty integrating acquired technologies, operations and personnel with our existing businesses;

diversion of management attention in connection with both negotiating the acquisitions and integrating the assets;

strain on managerial and operational resources as management tries to oversee larger operations;

the future funding requirements for acquired companies, which may be significant;

potential loss of key employees;

exposure to unforeseen liabilities of acquired companies; 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 and results of operations.

We rely on manufacturing capacity located in geologically unstable areas, which could affect the availability of supplies and services.

We, and many companies in the semiconductor industry, rely on internal manufacturing capacity, wafer fabrication foundries and other sub-contractors in geologically unstable locations around the world. This reliance involves risks associated with the impact of earthquakes on us and the semiconductor industry, including temporary loss of capacity, availability and cost of key raw materials and equipment and availability of key services including transport. 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, natural disaster, unavailability of electric power or otherwise, would have a material adverse effect on our results of operations and financial condition.

We are exposed to business, economic, political and other risks through our significant worldwide operations.

During the first six months of fiscal 2007, approximately 73% of our revenue was derived from customers in international markets. Although we engage in hedging transactions to reduce our exposure to currency exchange rate fluctuations, there can be no assurance that our competitive position will not be adversely affected by changes in the exchange rate of the United States dollar against other currencies. Potential interest rate increases, particularly in the United States and China, as well as high energy costs could have an adverse impact on industrial and consumer spending patterns and could adversely impact demand for our products. We have manufacturing facilities outside the United States in Ireland and the Philippines. In addition to being exposed to the ongoing economic cycles in the semiconductor industry, we are also subject to the economic and political risks inherent in international operations and their impact on the United States economy in general, including the risks associated with ongoing uncertainties and political and economic instability in many countries around the world as well as the economic disruption from acts of terrorism, and the response to them by the United States and its allies. Other business risks associated with international operations include increased managerial complexities, air transportation disruptions, expropriation, currency controls, currency exchange rate movement, additional costs related to foreign taxes, tariffs and freight rate increases, exposure to different business practices and legal standards, particularly with respect to price protection and intellectual property, trade and travel restrictions, pandemics, import and export license requirements and restrictions, difficulties in staffing and managing worldwide operations, and accounts receivable collections.

Our future operating results are dependent on the performance of independent distributors and sales representatives.

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 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 bankruptcy by these distributors. Our inability to collect open accounts receivable could adversely affect our results of operations. Termination of a significant distributor, whether at our initiative or the distributor's initiative, could disrupt our current

business. If we are unable to find suitable replacements in the event of terminations by significant distributors or sales representatives, our operating results could be adversely affected.

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Our manufacturing processes are highly complex and may be interrupted.

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 financial position or results of operations.

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 the following factors:

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 such 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, acquisitions or dispositions, litigation or capital commitments;

departures of key personnel;

actual or perceived noncompliance with corporate responsibility or ethics standards by us or any of our employees, officers or directors; and

negative media publicity targeting us or our 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.

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

Period	Total Number of Shares Purchased	Average Price Paid Per Share (a)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (b)	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
February 4, 2007 through March 3, 2007	3,346,584	\$ 33.82	3,346,584	\$ 866,024,324
March 4, 2007 through March 31, 2007	3,640,445	\$ 35.77	3,636,367	\$ 735,945,769
April 1, 2007 through May 5, 2007	3,328,015	\$ 36.45	3,328,015	\$ 614,629,122
Total	10,315,044	\$ 35.36	10,310,966	\$ 614,629,122

(a) The average price paid per share of stock repurchased under the stock repurchase program includes the commissions paid to the brokers.

(b) Repurchased pursuant to the stock repurchase program publicly announced on August 12, 2004. On December 6, 2006, our Board of Directors authorized the

repurchase by us of an additional \$1 billion of our common stock, increasing the total amount of our common stock we are authorized to repurchase from \$2 billion to \$3 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.

Table of Contents**ITEM 4. Submission of Matters to a Vote of Security Holders**

At our Annual Meeting of Shareholders held on March 13, 2007, the following matters were acted upon by the shareholders of the Company:

1. The election of four Class II Directors, each for a term of three years;
2. The ratification of the selection of Ernst & Young LLP as the Company's independent registered public accounting firm for the fiscal year ending November 3, 2007;
3. A shareholder proposal to adopt a policy that a significant portion of future stock option grants to senior executives be performance based; and
4. A shareholder proposal to amend the Company's governance documents to provide for majority voting in non-contested director elections.

The results of the voting on each of the matters presented to shareholders at the Annual Meeting are set forth below:

	VOTES FOR	VOTES WITHHELD	VOTES AGAINST	ABSTENTIONS	BROKER NON-VOTES
1. Election of four Class II Directors:					
Jerald G. Fishman	268,023,689	23,967,822	N.A.	N.A.	N.A.
John C. Hodgson	284,800,804	7,190,707	N.A.	N.A.	N.A.
F. Grant Saviers	269,375,631	22,615,880	N.A.	N.A.	N.A.
Paul J. Severino	283,953,764	8,037,747	N.A.	N.A.	N.A.
2. Ratification of Ernst & Young LLP	287,018,034	N.A.	3,082,386	1,891,091	N.A.
3. Shareholder proposal re: performance-based stock options to senior executives	112,248,872	N.A.	142,995,501	2,902,548	33,844,590
4. Shareholder proposal re: majority voting in non-contested director elections	98,987,263	N.A.	155,993,032	3,166,626	33,844,590

The other directors of the Company, whose terms of office as directors continued after the Annual Meeting, are John L. Doyle, Christine King, Ray Stata, James A. Champy, Kenton J. Sicchitano and Lester C. Thurow.

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.

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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: May 22, 2007

By: /s/ Jerald G. Fishman
Jerald G. Fishman
President and
Chief Executive Officer
(Principal Executive Officer)

Date: May 22, 2007

By: /s/ Joseph E. McDonough
Joseph E. McDonough
Vice President-Finance
and Chief Financial Officer
(Principal Financial and
Accounting Officer)

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Exhibit Index

Exhibit

No.	Description
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).