ANALOG DEVICES INC
Form 10-Q
May 19, 2015

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

Form 10-Q

(Mark One)

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

For the quarterly period ended May 2, 2015

OR

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

For the transition period from to

Commission File No. 1-7819

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

Massachusetts	04-2348234
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
One Technology Way, Norwood, MA	02062-9106
(Address of principal executive offices)	(Zip Code)

(781) 329-4700
(Registrant's telephone number, including area code)
(Former name, former address and former fiscal year, if changed since last report)

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

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

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

Large accelerated filer	þ	Accelerated filer	¨
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	¨

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

As of May 2, 2015 there were 313,541,685 shares of common stock of the registrant, $0.16 2/3 par value per share, outstanding.

PART I - FINANCIAL INFORMATION

ITEM 1. Financial Statements

ANALOG DEVICES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)
(thousands, except per share amounts)

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

See accompanying notes.

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

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

See accompanying notes.

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

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

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

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

See accompanying notes.

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

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

See accompanying notes.

ANALOG DEVICES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED MAY 2, 2015
(all tabular amounts in thousands except per share amounts and percentages)

Note 1 – Basis of Presentation

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

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

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

Note 2 – Revenue Recognition

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

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

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

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

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

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

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

As of May 2, 2015 and November 1, 2014, the Company had gross deferred revenue of $365.4 million and $349.7 million, respectively, and gross deferred cost of sales of $70.0 million and $71.3 million, respectively. Deferred income on shipments to distributors increased in the first six months of fiscal 2015 primarily as a result of higher demand for products, as well as a mix shift in favor of higher margin products, attributable to the Acquisition, sold into the channel.

The Company generally offers a twelve-month warranty for its products. The Company's warranty policy provides for replacement of defective products. Specific accruals are recorded for known product warranty issues. Product warranty expenses during each of the three- and six-month periods ended May 2, 2015 and May 3, 2014 were not material.

Note 3 – Stock-Based Compensation

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

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

Grant-Date Fair Value — The Company uses the Black-Scholes valuation model to calculate the grant-date fair value of stock option awards and the Monte Carlo simulation model to calculate the grant-date fair value of market-based restricted stock units. The use of these valuation models requires the Company to make estimates and assumptions, such as expected volatility, expected term, risk-free interest rate, expected dividend yield and forfeiture rates. The grant-date fair value of restricted stock units with only a service condition represents the value of the Company's common stock on the date of grant, reduced by the present value of dividends expected to be paid on the Company's common stock prior to vesting.

Information pertaining to the Company's stock option awards and the related estimated weighted-average assumptions to calculate the fair value of stock options using the Black-Scholes valuation model granted during the three- and six-month periods ended May 2, 2015 and May 3, 2014 are as follows:

	Three Months Ended		Six Months Ended	
Stock Options	May 2, 2015	May 3, 2014	May 2, 2015	May 3, 2014
Options granted (in thousands)	1,853	2,094	1,908	2,110
Weighted-average exercise price	$57.28	$51.74	$57.11	$51.72
Weighted-average grant-date fair value	$10.41	$9.00	$10.33	$8.99
Assumptions:				
Weighted-average expected volatility	25.9%	24.9 %	25.8 %	24.9 %
Weighted-average expected term (in years)	5.3	5.3	5.3	5.3
Weighted-average risk-free interest rate	1.6 %	1.7 %	1.6 %	1.7 %
Weighted-average expected dividend yield	2.8 %	2.9 %	2.8 %	2.9 %

The Company utilizes the Monte Carlo simulation valuation model to value market-based restricted stock units. The Monte Carlo simulation model utilizes multiple input variables that determine the probability of satisfying the performance conditions stipulated in the award grant and calculates the fair market value for the market-based restricted stock units granted. The Monte Carlo simulation model also uses stock price volatility and other variables to estimate the probability of satisfying the performance conditions, including the possibility that the market condition may not be satisfied, and the resulting fair value of the award. Information pertaining to the Company's market-based restricted stock units and the related estimated assumptions used to calculate the fair value of the market-based restricted stock units granted during the three- and six-month periods ended May 2, 2015 and May 3, 2014 using the Monte Carlo simulation model is as follows:

Market-based Restricted Stock Units	Three and Six Months Ended May 2, 2015	Three and Six Months Ended May 3, 2014
Units granted (in thousands)	75	86
Grant-date fair value	$55.67	$50.79
Assumptions:		
Historical stock price volatility	20.0 %	23.2 %
Risk-free interest rate	1.1 %	0.8 %
Expected dividend yield	2.8 %	2.8 %

Expected volatility — The Company is responsible for estimating volatility and has considered a number of factors, including third-party estimates. The Company currently believes that the exclusive use of implied volatility results in the best estimate of the grant-date fair value of employee stock options because it reflects the market's current expectations of future volatility. In evaluating the appropriateness of exclusively relying on implied volatility, the Company concluded that: (1) options in the Company's common stock are actively traded with sufficient volume on several exchanges; (2) the market prices of both the traded options and the underlying shares are measured at a similar point in time to each other and on a date close to the grant date of the employee share options; (3) the traded options have exercise prices that are both near-the-money and close to the exercise price of the employee share options; and (4) the remaining maturities of the traded options used to estimate volatility are at least one year. The Company utilizes historical volatility as an input variable of the Monte Carlo simulation to estimate the grant date fair value of market-based restricted stock units. The market performance measure of these awards is based upon the interaction of multiple peer companies. Given the Company is required to use consistent statistical properties in the Monte Carlo simulation and implied volatility is not available across the population, historical volatility must be used.

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

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

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

Stock-Based Compensation Expense

The amount of stock-based compensation expense recognized during a period is based on the value of the awards that are ultimately expected to vest. Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. The term “forfeitures” is distinct from “cancellations” or “expirations” and represents only the unvested portion of the surrendered stock-based award. Based on an analysis of its historical forfeitures, the Company has applied an annual forfeiture rate of 4.7% to all unvested stock-based awards as of May 2, 2015. The rate of 4.7% represents the portion that is expected to be forfeited over the vesting period. This analysis will be re-evaluated quarterly and the forfeiture rate will be adjusted as necessary. Ultimately, the actual expense recognized over the vesting period will only be for those options that vest.

Additional paid-in-capital (APIC) Pool

The APIC pool represents the excess tax benefits related to share-based compensation that are available to absorb future tax deficiencies. If the amount of future tax deficiencies is greater than the available APIC pool, the Company records the excess as income tax expense in its condensed consolidated statements of income. During the three- and six-month periods ended May 2, 2015 and May 3, 2014, the Company had available APIC pool to absorb tax deficiencies recorded and as a result, these deficiencies did not affect its results of operations.

Stock-Based Compensation Activity

A summary of the activity under the Company’s stock option plans as of May 2, 2015 and changes during the three- and six-month periods then ended is presented below:

Activity during the Three Months Ended May 2, 2015	Options Outstanding (in thousands)		Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Contractual Term in Years	Aggregate Intrinsic Value
Options outstanding at January 31, 2015	12,830		$37.72		
Options granted	1,853		$57.28		
Options exercised	(1,581	)	$33.06		
Options forfeited	(22	)	$47.79		
Options expired	(3	)	$39.81		
Options outstanding at May 2, 2015	13,077		$41.04	6.4	$290,757
Options exercisable at May 2, 2015	7,201		$33.90	4.7	$211,483
Options vested or expected to vest at May 2, 2015 (1)	12,510		$40.56	6.3	$284,097

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

Activity during the Six Months Ended May 2, 2015	Options Outstanding (in thousands)		Weighted-Average Exercise Price Per Share
Options outstanding at November 1, 2014	14,184		$37.20
Options granted	1,908		$57.11
Options exercised	(2,914	)	$32.79
Options forfeited	(79	)	$45.30
Options expired	(22	)	$36.52
Options outstanding at May 2, 2015	13,077		$41.04

During the three and six months ended May 2, 2015, the total intrinsic value of options exercised (i.e., the difference between the market price at exercise and the price paid by the employee to exercise the options) was $42.8 million and $72.9 million, respectively, and the total amount of proceeds received by the Company from the exercise of these options was $52.1 million and $94.9 million, respectively.

During the three and six months ended May 3, 2014, the total intrinsic value of options exercised (i.e., the difference between the market price at exercise and the price paid by the employee to exercise the options) was $42.9 million and $87.8 million, respectively, and the total amount of proceeds received by the Company from the exercise of these options was $62.9 million and $142.5 million, respectively.

A summary of the Company’s restricted stock unit award activity as of May 2, 2015 and changes during the three- and six-month periods then ended is presented below:

Activity during the Three Months Ended May 2, 2015	Restricted Stock Units Outstanding (in thousands)	Weighted-Average Grant-Date Fair Value Per Share
Restricted stock units outstanding at January 31, 2015	2,966	$43.37
Units granted	680	$53.02
Restrictions lapsed	(756)	$37.57
Forfeited	(20)	$46.33
Restricted stock units outstanding at May 2, 2015	2,870	$47.17

Activity during the Six Months Ended May 2, 2015	Restricted Stock Units Outstanding (in thousands)	Weighted-Average Grant-Date Fair Value Per Share
Restricted stock units outstanding at November 1, 2014	3,188	$43.46
Units granted	776	$51.91
Restrictions lapsed	(1,006)	$39.27
Forfeited	(88)	$45.13
Restricted stock units outstanding at May 2, 2015	2,870	$47.17

As of May 2, 2015, there was $141.5 million of total unrecognized compensation cost related to unvested share-based awards comprised of stock options and restricted stock units. That cost is expected to be recognized over a weighted-average period of 1.5 years. The total grant-date fair value of shares that vested during the three- and six-month periods ended May 2, 2015 was approximately $42.1 million and $58.8 million, respectively. The total grant-date fair value of shares that vested during the three- and six-month periods ended May 3, 2014 was approximately $12.7 million and $52.2 million, respectively.

Note 4 – Common Stock Repurchase

The Company’s common stock repurchase program has been in place since August 2004. In the aggregate, the Board of Directors has authorized the Company to repurchase $5.6 billion of the Company’s common stock under the program. Under the program, the Company may repurchase outstanding shares of its common stock from time to time in the open market and through privately negotiated transactions. Unless terminated earlier by resolution of the Company’s Board of Directors, the repurchase program will expire when the Company has repurchased all shares authorized under the program. As of May 2, 2015, the Company had repurchased a total of approximately 138.3 million shares of its common stock for approximately $4.9 billion under this program. As of May 2, 2015, an additional $684.3 million remains available for repurchase of shares under the current authorized program. The repurchased shares are held as authorized but unissued shares of common stock. The Company also, from time to time, repurchases shares in settlement of employee minimum tax withholding obligations due upon the vesting of restricted stock units or the exercise of stock options. The withholding amount is based on the employee's minimum statutory withholding requirement. Any future common stock repurchases will be dependent upon several factors, including the Company's financial performance, outlook, liquidity and the amount of cash the Company has available in the United States.

Note 5 – Accumulated Other Comprehensive Income (Loss)

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

	Foreign currency translation adjustment	Unrealized holding gains on available for sale securities classified as short-term investments	Unrealized holding (losses) on available for sale securities classified as short-term investments	Unrealized holding gains (losses) on derivatives	Pension plans	Total
November 1, 2014	$(5,132)	$518	$(306)	$659	$(164,265)	$(168,526)
Other comprehensive income (loss) before reclassifications	(7,474)	149	192	(34,494)	16,555	(25,072)
Amounts reclassified out of other comprehensive income (loss)	—	—	—	11,857	3,748	15,605
Tax effects	—	(24)	(96)	7,821	(563)	7,138
Other comprehensive income (loss)	(7,474)	125	96	(14,816)	19,740	(2,329)
May 2, 2015	$(12,606)	$643	$(210)	$(14,157)	$(144,525)	$(170,855)

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

Comprehensive Income Component	Three Months Ended May 2, 2015	Three Months Ended May 3, 2014	Six Months Ended May 2, 2015	Six Months Ended May 3, 2014	Location
Unrealized holding (losses) gains on derivatives					
Currency forwards	$2,980	$(207)	$5,342	$105	Cost of sales
	1,841	(384)	3,236	(773)	Research and development
	2,803	(356)	5,293	(298)	Selling, marketing, general and administrative
	—	—	(1,466)	—	(a)
Treasury rate lock	(274)	(274)	(548)	(548)	Interest expense
	7,350	(1,221)	11,857	(1,514)	Total before tax
	(851)	194	(1,397)	292	Tax
	$6,499	$(1,027)	$10,460	$(1,222)	Net of tax
Amortization of pension components					
Transition obligation	$5	$5	$10	$10	(b)
Prior service credit	(62)	(62)	(124)	(122)	(b)
Actuarial losses	1,924	1,165	3,862	2,300	(b)
	1,867	1,108	3,748	2,188	Total before tax
	(281)	(167)	(563)	(329)	Tax
	$1,586	$941	$3,185	$1,859	Net of tax
Total amounts reclassified out of accumulated other comprehensive income (loss), net of tax	$8,085	$(86)	$13,645	$637	

a) The gain related to a fixed asset purchase was reclassified out of accumulated other comprehensive income (loss) to fixed assets which will depreciate into earnings over its expected useful life.
b) The amortization of pension components is included in the computation of net periodic pension cost. For further information see Note 13, Retirement Plans, contained in Item 8 of the Annual Report on Form 10-K for the fiscal year ended November 1, 2014.

The Company estimates $7.1 million of net derivative unrealized holding losses included in OCI will be reclassified into earnings within the next twelve months. There was no ineffectiveness in the three- and six-month periods ended May 2, 2015 and May 3, 2014.
Unrealized gains and losses on available-for-sale securities classified as short-term investments at May 2, 2015 and November 1, 2014 are as follows:

	May 2, 2015	November 1, 2014
Unrealized gains on securities classified as short-term investments	$690	$541
Unrealized losses on securities classified as short-term investments	(215)	(407)
Net unrealized gains (losses) on securities classified as short-term investments	$475	$134

As of May 2, 2015, the Company held 77 investment securities, 15 of which were in an unrealized loss position with gross unrealized loss of $0.2 million and an aggregate fair value of $562.4 million. As of November 1, 2014, the Company held 66 investment securities, 18 of which were in an unrealized loss position with gross unrealized loss of $0.4 million and an aggregate fair value of $694.7 million. These unrealized losses were primarily related to corporate obligations that earn lower interest rates than current market rates. None of these investments have been in a loss position for more than twelve months. As the Company does not intend to sell these investments and it is unlikely that the Company will be required to sell the investments before recovery of their amortized basis, which will be at maturity, the Company does not consider those investments to be other-than-temporarily impaired at May 2, 2015 and November 1, 2014.

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

Note 6 – Earnings Per Share

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

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

	Three Months Ended		Six Months Ended	
	May 2, 2015	May 3, 2014	May 2, 2015	May 3, 2014
Net Income	$205,338	$187,433	$384,095	$340,019
Basic shares:				
Weighted-average shares outstanding	312,660	313,488	311,967	312,887
Earnings per share basic:	$0.66	$0.60	$1.23	$1.09
Diluted shares:				
Weighted-average shares outstanding	312,660	313,488	311,967	312,887
Assumed exercise of common stock equivalents	4,387	4,859	4,398	5,295
Weighted-average common and common equivalent shares	317,047	318,347	316,365	318,182
Earnings per share diluted:	$0.65	$0.59	$1.21	$1.07
Anti-dilutive shares related to:				
Outstanding stock options	1,879	2,981	2,042	2,611

7 – Special Charges

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

The following tables display the special charges taken for ongoing actions and a roll-forward from November 1, 2014 to May 2, 2015 of the employee separation and exit cost accruals established related to these actions.

Statements of Income	Reduction of Operating Costs Fiscal 2014
Workforce reductions	$37,873
Facility closure costs	459
Non-cash impairment charge	433
Change in estimates	(1,443)
Total Charges	$37,322

Accrued Restructuring	Reduction of Operating Costs
Balance at November 1, 2014	$40,503
Facility closure costs	(366)
Non-cash impairment charge	(433)
Severance payments	(14,795)
Effect of foreign currency on accrual	(447)
Balance at January 31, 2015	$24,462
Facility closure costs	(36)
Severance payments	(9,155)
Effect of foreign currency on accrual	(71)
Balance at May 2, 2015	$15,200

Reduction of Operating Costs

During fiscal 2014, the Company recorded special charges of approximately $37.3 million. These special charges included $37.9 million for severance and fringe benefit costs in accordance with the Company's ongoing benefit plan or statutory requirements at foreign locations for 341 manufacturing, engineering and selling, marketing, general and administrative (SMG&A) employees; $0.5 million for lease obligation costs for facilities that the Company ceased using during the fourth quarter of fiscal 2014; and $0.4 million for the impairment of assets that have no future use located at closed facilities. The Company reversed approximately $1.4 million of its severance accrual related to charges taken in fiscal 2013 primarily due to severance costs being lower than the Company's estimates. As of May 2, 2015, the Company still employed 28 of the 341 employees included in these cost reduction actions. These employees must continue to be employed by the Company until their employment is involuntarily terminated in order to receive the severance benefit.

Note 8 – Segment Information

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

•The primary source of revenue for each operating segment is the sale of integrated circuits.

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

•The Company sells its products to tens of thousands of customers worldwide. Many of these customers use products spanning all operating segments in a wide range of applications.

•The integrated circuits marketed by each of the Company's operating segments are sold globally through a direct sales force, third-party distributors, independent sales representatives and via our website to the same types of customers. All of the Company's operating segments share a similar long-term financial model as they have similar economic characteristics. The causes for variation in operating and financial performance are the same among the Company's operating segments and include factors such as (i) life cycle and price and cost fluctuations, (ii) number of competitors, (iii) product differentiation and (iv) size of market opportunity. Additionally, each operating segment is subject to the overall cyclical nature of the semiconductor industry. Lastly, the number and composition of employees and the amounts and types of tools and materials required for production of products are similar for each operating segment.

Revenue Trends by End Market

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

	Three Months Ended							
	May 2, 2015					May 3, 2014		
	Revenue	% of Revenue		Y/Y%		Revenue	% of Revenue	
Industrial	$390,712	48	%	20	%	$325,950	47	%
Automotive	139,707	17	%	3	%	135,998	20	%
Consumer	109,032	13	%	40	%	77,644	11	%
Communications	181,568	22	%	17	%	154,944	22	%
Total revenue	$821,019	100	%	18	%	$694,536	100	%

	Six Months Ended							
	May 2, 2015					May 3, 2014		
	Revenue	% of Revenue*		Y/Y%		Revenue	% of Revenue*	
Industrial	$742,415	47	%	21	%	$614,771	46	%
Automotive	263,747	17	%	1	%	260,666	20	%
Consumer	204,141	13	%	34	%	152,057	11	%
Communications	382,702	24	%	30	%	295,280	22	%
Total revenue	$1,593,005	100	%	20	%	$1,322,774	100	%

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

Revenue Trends by Geographic Region

Revenue by geographic region, based on the primary location of the Company's customers’ design activity for its products, for the three- and six-month periods ended May 2, 2015 and May 3, 2014 were as follows:

	Three Months Ended		Six Months Ended	
Region	May 2, 2015	May 3, 2014	May 2, 2015	May 3, 2014
United States	$276,193	$193,608	$510,840	$375,906
Rest of North and South America	22,200	25,431	45,360	44,867
Europe	251,402	232,299	489,983	432,986
Japan	82,238	74,591	164,906	145,682
China	126,449	109,583	257,168	210,067
Rest of Asia	62,537	59,024	124,748	113,266

Total revenue	$821,019	$694,536	$1,593,005	$1,322,774

In the three- and six-month periods ended May 2, 2015 and May 3, 2014, the predominant country comprising "Rest of North and South America" is Canada; the predominant countries comprising "Europe" are Germany, Sweden, France and the United Kingdom; and the predominant countries comprising "Rest of Asia" are South Korea and Taiwan.

Note 9 – Fair Value

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

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

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

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

The tables below set forth by level the Company's financial assets and liabilities, excluding accrued interest components, that are accounted for at fair value on a recurring basis as of May 2, 2015 and November 1, 2014. The tables exclude cash on hand and assets and liabilities that are measured at historical cost or any basis other than fair value. As of May 2, 2015 and November 1, 2014, the Company held $109.2 million and $121.3 million, respectively, of cash and held-to-maturity investments that were excluded from the tables below.

	May 2, 2015 Fair Value measurement at Reporting Date using:			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)	Total
Assets				
Cash equivalents:				
Available-for-sale:				
Institutional money market funds	$188,633	$—	$—	$188,633
Corporate obligations (1)	—	338,377	—	338,377
Short - term investments:				
Available-for-sale:				
Securities with one year or less to maturity:				
Corporate obligations (1)	—	2,233,377	—	2,233,377
Floating rate notes, issued at par	—	40,073	—	40,073
Floating rate notes (1)	—	65,203	—	65,203
Securities with greater than one year to maturity:				
Floating rate notes, issued at par	—	99,909	—	99,909
Other assets:				
Deferred compensation investments	22,573	—	—	22,573
Total assets measured at fair value	$211,206	$2,776,939	$—	$2,988,145
Liabilities				
Forward foreign currency exchange contracts (2)	—	10,415	—	10,415
Contingent consideration	—	—	4,741	4,741
Interest rate swap agreements	—	19,733	—	19,733
Total liabilities measured at fair value	$—	$30,148	$4,741	$34,889

(1) The amortized cost of the Company's investments classified as available-for-sale as of May 2, 2015 was $2.4 billion.

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

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

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

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

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

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

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

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

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

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

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

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

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

The following table summarizes the change in the fair value of the contingent consideration measured using significant unobservable inputs (Level 3) from November 1, 2014 to May 2, 2015:

	Contingent Consideration
Balance as of November 1, 2014	$4,806
Fair value adjustment (1)	67
Effect of foreign currency	(132)
Balance as of May 2, 2015	$4,741