FINAL TRANSCRIPT

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ADI - Q3 2011 Analog Devices Inc Earnings Conference Call

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PRESENTATION

Operator

Good afternoon. My name is Vivian and I will be your conference facilitator. At this time, I would like to welcome everyone to Analog Devices' third-quarter fiscal 2011 earnings conference call. All lines have been placed on mute to prevent any background noise. After the opening remarks, there will be a question-and-answer period with our analyst participants. (Operator Instructions). Thank you. Ms. Kohl, you may begin your conference.

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

Thanks, Vivian and good afternoon, everyone. This is Mindy Kohl, Director of Investor Relations. We appreciate you joining us for today's call. If you haven't yet seen our third-quarter fiscal 2011 release, you can access it by visiting our website at www.Analog.com and clicking on the headline in the news section of our home page. This conference call is also being Webcast live from Analog.com, select Investor Relations and follow the instructions shown next to the microphone icon. A recording of this conference call will be available today within about 2 hours of this call's completion and will remain available via telephone playback for 1 week. This Webcast will also be archived on our IR website.

Participating on today's call are Jerry Fishman, President and CEO; Dave Zinsner, Vice President of Finance and CFO and Vincent Roche, Vice President of Strategic Market Segment and Worldwide Sales. During the first part of the call, Jerry and Dave will present our third-quarter results as well as our short-term outlook. The remainder of the time will be devoted to answering questions from our analyst participants.

During today's call, we may refer to non-GAAP financial measures that have been adjusted for certain non-recurring items in order to provide investors with useful information regarding our results of operations and business trends. We have included reconciliations of these non-GAAP measures to their most directly comparable GAAP measures in today's earnings release, which is posted on the IR website. In addition we have updated the schedules on our IR website, which includes historical quarterly and annual summary P&L for continuing operations as well as historical quarterly and annual information for revenues from continuing operations by end market and product type.

Next I'd ask you to please note that the information we are about to discuss includes forward-looking statements intended to qualify for the Safe Harbor from liability established by the Private Securities Litigation Reform Act of 1995. These forward-looking statements include risks and uncertainties, and our actual results could differ materially from those we will be discussing. Factors that could contribute to such differences include, but are not limited to, those described in our SEC filings, including our most recent report on Form 10-Q.

The forward-looking information that is provided on this call represents our outlook as of today, and we do not undertake any obligation to update the forward-looking statements made by us. Subsequent events and developments may cause our outlook to change. Therefore, this conference call will include time-sensitive information that may be accurate only as of the date of the live broadcast, which is August 16, 2011. With that, I'll turn the call over to ADI's CEO, Jerry Fishman.

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

Good afternoon. As you know from this afternoon's press release, ADI's revenues for the third quarter were approximately $758 million, which was up 5% from the same quarter last year, but down 4% sequentially from Q2.

As you may recall, we were somewhat cautious about our Q3 revenues, given our well above seasonal 9% revenue increase sequentially in Q2, which we believed was in part the result of inventory builds in the supply chain due to Japan earthquake-related supply chain disruptions and the fear of industry-wide supply reductions. It now appears as if customers built more inventory than we anticipated last quarter, and they liquidated it more rapidly than we had planned for. Notwithstanding these perturbations in supply, most of the end markets we serve remained relatively stable in Q3, particularly the communications market, the automotive market, and also the industrial markets. Our consumer business recovered slightly in Q3, but less than we had planned at the beginning of the quarter.

Our revenues in Q3 were impacted by 2 distinct drivers, both of which we believe had more to do with supply chain issues than end demand. First, a portion of the revenue shortfall was the result of a few communications infrastructure customers delaying orders to ADI in response to component shortages from other vendors as well as the liquidation of excess safety stocks that they built in Q2. Our shipments to these customers returned to more normal levels in July. While there were many other puts and takes at our other large customers, for the most part, revenue at those customers was in line with our forecast. The balance of the shortfall was from the 50,000 small and mid-sized customers served through our distribution channel.

Our distributors report that their customers have been burning off excess inventory, particularly from suppliers like ADI, who had consistently short lead times and kept up with the increased order rate that we experienced in the second quarter. Recent conversations with our 2 largest distributors indicate that inventory reductions are proceeding in an orderly fashion with few cancellations and few backlog adjustments. I think it's instructive to look at the end market trends in both Q2 and Q3, to better understand these trends and most importantly the implications of those trends going forward.

Industrial revenues declined 5% sequentially in Q3, after growing 14% sequentially in Q2. This looks to us like an inventory build in Q2 that was reversed in Q3. On a year-over-year basis, industrial sales for the quarter grew 8%, which is consistent with our expectations for the industrial business over the long term. While our largest industrial customers in the United States and in Europe are somewhat more cautious than they were last quarter at this time, for the most part, they're planning for a stable environment for the balance of the year, and our industrial sales in China are continuing to grow.

Automotive revenue declined 5% sequentially in Q3, after growing 12% sequentially in Q2. Year-over-year, our automotive sales for the quarter grew 21%. We now have significantly more content in autos than we did last year, and our revenue is more dependent on content growth than on unit sales. We're extremely well-positioned in the automotive market. Our current forecasts from our automotive customers are also stable in the near term, and unless the economic outlook changes drastically, this market should remain an area of strength for ADI going forward, as our automotive revenues are now running at a rate in excess of $400 million annually.

Communications revenues declined 7% sequentially, after growing about 7% in Q2. On a year-over-year comparative basis, communications revenues grew 10% in Q3. It seems very clear to us that our Q3 revenue was significantly impacted by both Chinese and European customer order push-outs, which resulted from the shortage of other vendors' components and also the associated inventory imbalances that existed at those accounts. While there are still concerns about short-term demand in the United States and Europe in this sector, the Asian markets report that demand remains strong and are optimistic about the balance of the year.

Consumer revenue was up 4% sequentially, after declining 7% sequentially in Q2, and was up less than we planned in Q3 and down 14% year-over-year. This year-over-year decline is primarily the result of our intensifying focus on only higher value-added consumer applications where our technology is highly differentiated and our position is sustainable over many generations. Nevertheless, we have seen some improvement in our short-term backlog for consumer products, which is seasonally very typical at this point in the year, and we're hopeful that this business will stabilize further during our fourth quarter.

On a geographic basis, revenues increased sequentially in Japan and also in China, but decreased sequentially in the rest of Asia and Europe and in North America. While our Q3 revenues were below the plan we had for the quarter, we did react quickly to protect the down side. As a result, even on the lower revenue base, our gross margins remained above 67%, operating expenses declined 2% sequentially, essentially flat to the same quarter last year, and our operating margin was just under 37% of revenues. Inventories grew only slightly and operating cash flow totaled $257 million or 34% of revenues during the quarter.

Including $0.01 that resulted from a tax catch-up, earnings were $0.71, which were in line with the guidance range we communicated last quarter. Dave, in a few minutes, will discuss more details of the financial results. As far as the order rates in Q3, clearly orders weakened for us in May, and continued at these lower levels throughout the quarter and also into early August, and that not surprisingly is coincident in time with a significant reduction in the fears that were industry-wide about chronic supply shortages. Nevertheless, our order rates have stabilized at these levels, and as of now show no signs of further deterioration.

Our OEM backlog, which includes forecast orders from our largest customers, declined only slightly during the quarter, while our backlog from distribution declined more than that as a result of our distributors' stated commitment to reduce their inventories, particularly for suppliers like ADI who provide very, very short lead times. During inflection points like Q3, when supply is very strong, orders have proved over many, many years not to be a very reliable indicator of future sales, since turned orders tend to comprise a much larger percentage of quarterly sales. We believe that the consumption of our products in Q3 was above our recorded orders, as a result of inventory reductions at many customers.

So now, I'd like to turn the call over to Dave to talk a little more detail about the financial results, and I'll make some closing remarks after Dave's done.

Dave Zinsner - *Analog Devices Inc - VP Finance and CFO*

As Jerry discussed, third-quarter revenue was $758 million, a decline of 4% sequentially, but an increase of 5% from the same period last year. Our gross margin remains strong despite the sequential revenue decline, coming in at 67.2%, down 40 basis points from the prior quarter, and within the range we indicated on last quarter's call. The decline was due to decreased loadings in our factories versus last quarter.

Operating expenses for the third quarter were $231 million, down $5 million or 2%. In the third quarter, we benefited from our lower and more variable operating expense structure, in particular, from lower variable compensation payments versus the second quarter. Towards the end of the quarter, we implemented cost control measures, which also helped reduce expenses. We plan to continue these programs in the fourth quarter to protect our profits.

Operating profits for the third quarter were $279 million, or 36.8% of sales, compared to 37.8% of sales in the prior quarter. Obviously, operating profits were down both in dollars and percentage terms as a result of the lower revenue in the third quarter, versus the second quarter. Other expense was $4 million, compared to $1.7 million in the prior quarter. The increase was the result of incurring a full quarter of interest expense, associated with a $375 million bond offering completed in the second quarter. Our third-quarter tax rate was 20%, down from 22.1% in the second quarter, as we revised the annual rate to 21.3%. We expect the tax rate in the fourth quarter to be 21.3% as well.

Diluted earnings per share was $0.71, within the range of guidance we provided last quarter. This compares to non-GAAP diluted earnings per share of $0.75 in the prior quarter. As I just mentioned, we revised our year-to-date tax rate to 21.3% for the year, which lowered our third quarter tax rate to 20%. This catch-up provided a $0.01 benefit to our EPS.

In addition to solid profitability, we maintained strong cash flow performance, generating 34% of our revenue, or $257 million in operating cash flow. Capital expenditures were $37 million, resulting in free cash flow of $220 million, or 29% of revenue for the quarter.

During the third quarter, we repurchased 1.7 million shares, or $66 million of ADI stock, and distributed $75 million in dividends to our shareholders. At current stock prices, at least as of the close of today, our dividend yield is now around 3.2%. Yesterday, our Board of Directors declared a cash dividend of $0.25 per outstanding share of common stock, which will be paid to shareholders of record as of August 26, 2011, and will be paid on September 14, 2011. We closed the third quarter with $3.5 billion in cash, of which $1.2 billion, or 33%, is in the US. Net cash excluding approximately $900 million in debt was $2.6 billion at the end of the third quarter.

Our accounts receivable balance decreased sequentially by 10% due to lower sales, and our days sales outstanding decreased 3 days from the prior quarter to 45 days. Inventory at the end of the third quarter increased by 2% sequentially, and our days of inventory were 110 days compared to 104 days in the prior quarter. Although we were planning for higher sales, we were able to react and slow the inventory build towards the end of the quarter.

Our distributor inventory increased a few days, and is now slightly above target levels. As a result, we expect distributors to reduce their inventory levels in the fourth quarter. It's important to note that the reduction in distributor inventory will not impact revenue, since revenue recognition does not -- or since revenue does not get recognized until after the distributor ships our product to the end customer. However, we are cognizant of these inventory adjustments at distributors and it is factored into our plans for this quarter.

In summary, despite lower than expected revenue for the quarter, we delivered strong profitability and cash flow, and we expect this to continue. Over the course of the last 2 years, we have fundamentally lowered our cost of manufacturing, which has driven record levels of gross margins over the last several quarters. We believe that the lower cost per unit will also benefit us in the periods where demand was weaker, by keeping gross margins considerably higher than previous troughs. We have also created a lower and more variable cost structure for operating expenses, one that is highly responsive to both upside opportunity as well as the need for downside protection. We believe our model, coupled with vigilant operating expense control, positions us well to respond to whatever market fluctuations may occur in the fourth quarter. And now I'll turn the call back over to Jerry, who will discuss the short-term and long-term outlook.

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

Obviously planning revenues in the short-term is very challenging. On 1 hand, we believe that most of the decline in Q3 was the result of supply and inventory imbalances and, therefore, could be short-lived. If we had recorded a more normal seasonal Q2, our Q3 revenue would have been at or above Q2 levels. That scenario would imply that Q4 could be a normal seasonal quarter for ADI, or approximately flat to down slightly compared to Q3.

Our internal forecasts indicate some sequential growth in communications infrastructure and automotive revenues, offsetting the slight decline in the industrial revenues with consumer growing seasonally. Nevertheless, there is increasing uncertainty in many parts of the global economy, and it's very possible that all this chaos will cause a decline in demand as customers become more cautious and push out new programs and consumers reduce spending on discretionary items. If that occurs, we could see a decline in all of our end markets and our revenues could decrease sequentially. We really have no way to predict which way this will go.

So as such, we're planning for revenues to be in a range of $715 million to $755 million, or flat to down approximately 6% sequentially. I think when history is written, we believe that our Q3 will be mostly about supply issues and our Q4 will be mostly determined by end demand. We all have to recognize that there's a wide range of possibilities of what demand might be in Q4, given all the economic uncertainties that we are reminded of every single day. So currently, we're planning to reduce production levels in Q4, to bring our inventory levels at distributors and on our balance sheet down to more appropriate levels. Therefore, we expect gross margins to be in a range of 65% to 66% of sales, depending on the revenue levels that we achieve. We also plan to carefully manage operating expenses and expect operating expenses to be flat to down 3% sequentially, also depending on the sales we achieve. So at these levels we expect diluted earnings for the quarter to be in a range of $0.60 to $0.68.

Our best course of action right now is to be very cautious in the short term, and work on the things that we can do to control and work on to limit the down side, while remaining very flexible to capture any upside that comes our way. We've reduced discretionary spending and we're planning to reduce production levels to keep inventory approximately flat to Q3, assuming that we're somewhere at the midpoint of our guidance. We believe we can respond rapidly if the demand pattern improves and we intend to keep our lead times very short as we have the last few years.

We have a very natural hedge in our operating expenses, as our variable compensation plans react quickly to reduced revenue growth. We're also working to ensure that we're allocating critical strategic resources to the most important programs and away from the less strategically relevant programs that we've invested. We're confident in our ability to manage through this period and return to solid growth at extraordinary margins and cash flow, as the world becomes more stable.

While our quarterly results year-to-date have certainly been whip-sawed by supply gyrations, it's important to put our 2011 fiscal year in better focus. If we achieve the midpoint of our guidance for Q4, our revenues will have increased by approximately 9% over last year, to over $3 billion in 2011 for the first time in our history. Our gross margins will have increased by approximately 150 basis points. Our operating expense growth will be well below our revenue growth, and our operating margins will have improved for the year to approximately 36%. Operating cash flow will likely approximate $900 million, and at today's price, our free cash flow yield is approximately 8%.

These results are in line with what we plan to achieve in fiscal 2011, and we believe that we're executing well against our plan. While we can't predict the near term future any better than anyone else, we do believe that if we're given at least a neutral economic environment, ADI can continue to grow incredible rates, between 8% and 12% a year, keep improving our operating performance, and keep generating a very significant amount of cash.

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

Thank you, Jerry. During today's Q&A period please limit yourself to 1 primary question and no more than 1 follow-up question. We'll give you another opportunity to ask additional questions if we have time remaining. Operator, we're ready for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Our first question comes from Uche Orji with UBS.

Uche Orji - *UBS - Analyst*

Can you hear me?

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

Yes.

Uche Orji - *UBS - Analyst*

Jerry, thank you very much. Let me just start out by asking you, there's been so much parallel drawn about this current environment with 2008 and some companies are commenting that we may already been seeing early signs of a double dip recession. Question for you is, how similar do you see this environment and 2008 and also what is the level of accretion, just in case the environment deteriorates much further than your Company is guiding at the moment? How much prepared are you related to 2008? That's my first question.

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

Of course, we don't know anymore than anybody else knows about what the future and the talk about what's going to happen economically around the globe is the subject continuously about great conjecture about what's going to happen. At least as the way we see it, there are a couple of factors that tend to convince us that this is not a repeat of 2008 and 2009, and the demand patterns we're seeing. The first thing is, in 2008 and 2009, we saw very significant weakness in a few market segments, and this time, when we look at all the product segments and all the market segments that we serve, we saw them all go down at about the same rate, which to us seems to indicate it's more, at least for us in Q3, more about supply than demand.

The other fact that our distributors point out to us in our recent conversations is that they haven't seen a lot of significant cancellation or backlog adjustments, which indicates to them mostly what we're seeing is an orderly reduction of inventory, rather than the severe dislocations that we all experienced in 2008 and 2009. So at Analog, unlike many other companies in the industry, we had a very significant run-up in Q2, well above our seasonal rates. When we grow 9% sequentially in a quarter that typically we grow 4% to 5% in, that sort of reads there was some inventory built in the channel. And most of what he with saw last quarter from both the distributor statistics and also the commentary from our largest customers is they seem to believe it's much more about, at least in Q3, much more about supply than demand.

It's also interesting at Analog, as Dave mentioned, when we report our distribution sales, which half of our sales sell-out, so last quarter the distributors built quite a bit of inventory, which shows up as revenues for many companies but not revenues for Analog Devices. So when we add all that up, and we listen to comments from the large customers, the comments from our distributors, at least in Q3, I believe -- we've all come to believe that it was mostly about supply gyrations, not demand. I think as far as what happens in the future, we really don't know.

You can read this report or that. You can read this summary or that. Read this editorial in the New York times or another one in The Wall Street Journal and there's a bunch of opinions out there, what's going to happen. We can't predict that, which is why the range of possibilities for Q4, at least as we see it, is very large. In the short term, as I think Dave indicated, and I made some comments on, we're really being careful on discretionary expenses.

We have a natural hedge on our expense growth with the variable comp plan which when last year's results were coming in, we're paying at extremely high rates and has now cycled down pretty hard and will continue to if the results don't get any better. We're reallocating resources to the projects and the segment for the customers that are the most strategically relevant for us. We have a very low and variable manufacturing cost structure. So I think we're in pretty good shape to react to anything the world throws at us, although I would repeat, we really just don't know what the world's going to throw at us next quarter.

But I think we have a very resilient business model now, much more resilient than it was two or three years ago, much more of our costs are variable and our product portfolio is a lot less volatile than it was back then. Again, if the world goes to hell, our results won't be that great. But I think we're well suited to respond to whatever the world throws at us.

Uche Orji - *UBS - Analyst*

Thank you very much. Can I ask a quick follow-up? Let me just speak on automotive. You seem to have grown regardless of all the dislocations in auto. Question for you here is, how much more runway do we see for growth in automotive, and if you can talk about your segmentation by region, or also by type of car, high-end versus low end, to help us understand what's driving that growth and how much further there is to go. Thank you.

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

Historically, I'll ask Vince to comment on this in a few minutes to get his point of view, but historically most of our growth in the automotive market has been in the higher-end cars which is much more feature-rich and have much more safety and cockpit measurement going on. So historically, we've done the best with European manufacturers, and some of the high-end American manufacturers. More recently we've done well with some of the Asian manufacturers as well. So I think at the end of the day, that business has been growing very robustly for us. We have very a strong position in that business.

Just last week, when we were talking to the guy that runs our automotive business for us, he tends to be very well-connected to the build rates that our customers are forecasting, and everyone's nervous, but he's sort of indicating to us that he understands the build rates and they're commensurate with the kind of numbers and direction that we've indicated to you. So we'll just have to wait and see how that turns out. Vince, do you have anything else?

Vincent Roche - *Analog Devices Inc - VP - Strategic Markets Segment, Worldwide Sales*

I think to follow on more to Jerry's point, we are very well penetrated I think today in the mid- to high-end. The diversity of our business is quite good in the automotive sector. We supply into the safety sector, the monitoring sector, sensing, battery control and entertainment.

And Jerry said there's -- in the script, there's basically a huge demand. We're just capped by the rate at which our customers can absorb the technology. There's no fundamental limit on the performance requirements that they've got.

So as the -- it's not a question of unit volumes for ADI. We're very well penetrated. It's a question of just how well car sales move in the mid to high-end and we'll be there. We'll do well I believe in Q2.

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

The automotive industry in ADI has emerged from the early days when it was mostly about air bags and safety features. Even though that's still a very important business for us, particularly with our new gyroscopes that we're selling very high volume right now, there's just so many other applications. As Vince said, sensing and entertainment application that's really require very, very high end analog technology and DSP technology and it's those applications that are really driving our growth.

Operator

The next question is from Craig Ellis with Caris & Company.

Craig Ellis - *Caris & Company - Analyst*

Thanks for taking the question. Jerry, it was helpful to get the geographic color on industrial. I'm wondering if you could talk about some of the specific sub markets as well, such as medical, automated, test and others. Are you seeing similar trends in terms of order activity there? Or is there divergence, given the diversity of end markets?

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

It's similar but it's slightly divergent. The test equipment market is certainly at the margin weaker, than it's been in line with all the uncertainty in semiconductor demand out there. I think that's clear.

And the medical market is probably a little weaker also, due to just the hospitals really worried about capital spending and new medical cost constraints in the United States and all the other fun parts of Obama-care. But I think the other markets, the industrial automation market was still pretty strong. Instrumentation market, process controls, still pretty strong. So these aren't meaningful differences, Craig, but they are notable differences in some of those end markets.

Craig Ellis - *Caris & Company - Analyst*

That's helpful. Dave, you mentioned that there were two benefits to OpEx. One was just the variable comp program and then I think you mentioned that there were specific OpEx initiatives that you put in place and are working. Can you go into a little bit more detail on what those are and how much benefit are you getting in the flat to down 3% guidance in the out quarter.

Dave Zinsner - *Analog Devices Inc - VP Finance and CFO*

Well, obviously it wasn't until towards the end of the quarter that we started to recognize that we might need to put some things in place. So we really probably didn't get too much benefit in the third quarter, although it was generally around restricting hiring and starting to eliminate some of the more discretionary oriented parts of the P&L. And that's expected to continue this quarter to make sure we maintain the appropriate level of profitability.

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

I think, Craig, the other thing that goes on is when things get a little uncertain or soft we tend to raise the bar on strategic investments and where we put the money and how patient we are with some areas that we've been carrying. So I think at the margin as we go into 2012, that's going to continue. That's not a -- necessarily a reaction to softer order rates but more a reaction to we have just such an opportunity in some segments that we want to make sure that irrespective of what happens in the environment, we can continue to fund those things. And that sometimes takes much greater selectivity when there's more uncertainty out there.

But I think the most important thing is the basic rudiments of our cost structure are just much more variable than they were a couple years ago. And that really doesn't hurt us much on the upside when business is great, paying large variable comp payments to every employee in the Company really helps us. But on the other hand it really helps us on the down side where we can keep a lot of the strategic programs going and still get the benefits of being very responsive to the softness that exists for a period of time in the ordering. So if the world really is catastrophic, we'll have to think about it differently, but right now we think we can keep the expenses moving in the same direction as the revenues.

Operator

The next question is from Ross Seymore with Deutsche Bank.

Ross Seymore - *Deutsche Bank - Analyst*

Hi, guys. Jerry, you talked about that cost structure variable before. A think about a year ago you mentioned that 17% of your OpEx was variable. How is that comparison today?

Dave Zinsner - *Analog Devices Inc - VP Finance and CFO*

Yes, so obviously it came down this quarter in reaction to the lower revenue. So it's about 12% of our revenue is now variable.

Ross Seymore - *Deutsche Bank - Analyst*

Okay. And so as you go forward, that percentage you think will adjust so you become increasingly variable or is the fact that the revenues are falling as fast as they are and your costs are fixed are going to make that percentage actually stay where it is?

Dave Zinsner - *Analog Devices Inc - VP Finance and CFO*

I would say if we're in an environment where OpEx needs to come down, that probably becomes less variable. If the variable aspect of the operating expense starts to decline. But if revenues start to go the other direction then it will expand with revenues and increase as a percentage.

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

I think the way to think about the variable comp plan is that I believe we communicated a few quarters ago that there are -- it's a very simple formula that there were two elements of. One is the operating margins and the other one is sales. So the fact that we're still earning very significant operating margins means there's still significant variable comp payment at the Company. Even though the growth rate has tailed off this quarter.

So I think if you start getting into where the world starts coming unglued, I think we've still got plenty of room on the variable side for those payments to go down. Is that fair, Dave?

Dave Zinsner - *Analog Devices Inc - VP Finance and CFO*

Yes.

Ross Seymore - *Deutsche Bank - Analyst*

I guess as my follow-up, Jerry you talked a lot about the supply disruptions being a bigger issue than demand side. If demand were to stabilize from here, how long do you think it would take before the supply side of the equation was brought back in to line?

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

There are varying opinions in that. We just talked recently to our distributors about that, that have these very broad product portfolios and many customers and many supply areas. There's some difference of opinion on that amongst the distributors. There were on one hand, some of them believe that it's mostly behind us and might have another couple months to run.

There's the other more pessimistic view, might have two quarters to run. But nobody really knows for sure because the customers don't know for sure. So I'd say it's somewhere between a couple of months, probably, and at the outside, maybe a quarter or two.

Ross Seymore - *Deutsche Bank - Analyst*

Thank you.

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

That's if you synthesize all of the comments from all the disparate groups that we talk to.

Ross Seymore - *Deutsche Bank - Analyst*

Thank you.

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

One other qualifier would be I think the most serious parts of that we've experienced. We saw pretty rapid inventory reductions going on, almost coincident to the week that the commentary about supply being available started coming out and all the panic. So I think the most significant reductions in the supply chain have sort of probably occurred and the rest of it for the next maybe few months or worst case another quarter or two are probably much less significant than the ones we've seen.

Operator

The next question is from Chris Danely with JPMorgan.

Venk Nathamuni - *JPMorgan Chase & Co. - Analyst*

Good morning. This is Venk Nathamuni in for Chris. Couple of questions. One, Jerry you talked about inventory level of distribution, the plans for your -- for ADI to reduce that inventory level. Could you help quantify what the historical level of inventory is on average of distribution is and where it is now and where do you expect it to be next quarter?

Dave Zinsner - *Analog Devices Inc - VP Finance and CFO*

This is Dave Zinsner, actually. Inventory we measure it more or less by number of weeks and inventory usually runs around eight weeks. It's a little bit higher than that today by a couple of days. Our expectation is that will come down by a few days next quarter.

Venk Nathamuni - *JPMorgan Chase & Co. - Analyst*

Okay. Great. Thanks. And then given the significant sell-off in the stock, the fact that you have considerable buyback authorization, what are your plans for continued buybacks and the quantum of buybacks?

Dave Zinsner - *Analog Devices Inc - VP Finance and CFO*

We have $1 billion buyback program that was authorized in December of last year. We've already purchased $200 million worth of ADI stock under that plan, so we have $800 million left. I think you'll see, as we have in the past, been committed to returning cash to shareholders, both in the form of dividends that increase over time and buybacks. And you'll see examples of that commitment going forward.

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

I think our belief is pretty attractive at these prices and these kind of yields and the expectations for the future, even though there's a lot of gyrations going on and everyone's real nervous about the short term.

Venk Nathamuni - *JPMorgan Chase & Co. - Analyst*

Thank you.

Operator

And the next question is from Terence Whalen with Citi.

Terence Whalen - *Citigroup - Analyst*

Good afternoon. Thanks for taking the question. This one circles back again to the industrial end market and the commentary you made there. I believe you said in some of your comments that the Chinese region within industrial grew.

I was wondering if you could give us more color around that, and what gives you confidence that's not continued stocking but rather real demand. Also in your expectation I think you mentioned in your baseline scenario industrial would decline. Do you expect it to decline at a similar pace, down 5% sequentially or slighter than that or more heavily than that? Thank you.

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

We don't know for sure because we never know about whether it's stockpiling in China or not. There's not a lot of concerns right now about supply. So there were a lot of concerns about supply, there was much more likelihood and opportunity to stockpile inventory. Although you always find out about that after the fact. So we really don't know for sure.

The industrial environment in China is very robust. There's a huge amount of industrialization going on that continues in China. That's been growing at a pretty good rate for a while, and even in 2008 and 2009 when the world fell apart, our industrial business in China kept growing. So, I mean, again, it's always difficult to predict the future, but we have a lot of good signs on that business in China.

What was the second question? I forgot.

Dave Zinsner - *Analog Devices Inc - VP Finance and CFO*

If you expect industrial to decline.

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

I'd say in our forecast right now, at least with the people that run the industrial business, we're expecting that to decline slightly, which is very typical in the fourth quarter because Europe slows down and Europe is a very large source of our industrial. But we don't expect, at least in the forecast we now have, any significant decline, probably a lower decline than we had this quarter in fourth quarter than we had in third quarter.

Terence Whalen - *Citigroup - Analyst*

That's very helpful. The quick follow-up would be you mentioned about lower factory loadings. Could you remind us where utilization was maybe this quarter and what you might expect it to be next quarter? I believe last quarter you said around 80%. Thanks.

Dave Zinsner - *Analog Devices Inc - VP Finance and CFO*

Yes. So second quarter utilization was 80%. This quarter, it was -- third quarter, that is, it was 77% and we're expecting it to be kind of in the low 70s for the fourth quarter.

Terence Whalen - *Citigroup - Analyst*

Thanks. Very helpful.

Dave Zinsner - *Analog Devices Inc - VP Finance and CFO*

That's built into our gross margin assumption.

Operator

The next question is from Steve Smigie with Raymond James.

Steven Smigie - *Raymond James & Associates - Analyst*

Great, thank you. I know you only forecast one quarter ahead but just curious if you could walk us through the logic a little bit about how we should think about the January quarter. Since you seem to have some unusual seasonal patterns here, typically the January quarter would be down a little bit but since you had the two sequential drops here for July and October, is it possible that could be more flattish to up? Or would you still think that might be potentially down?

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

I'd have to say, we really have no idea. My own personal opinion is that we'll see more effects the next couple of quarters that are based on what's going on in the economy and overall demand patterns than we will seasonal patterns that are considered to be normal. We look back and we always look back and the last couple years what happened, what's the seasonal pattern for the quarter and I can report to you that our analysis indicated that we can't figure out what the seasonal patterns are. The only -- because there's so many different factors that go in to each year lately, that those sort of more exogenous factors have more to do than the typical seasonal factors.

Less of our business is consumer than it used to be. So that might change the seasonal factor. More of our business is industrial and infrastructure. That might change the seasonal factor. So I just don't know enough. We look more at sort of what the backlogs are with customers are saying than we do -- than we rely on long-term going back three or four years and trying to predict one quarter's growth relative to another. It's just too many other factors.

Steven Smigie - *Raymond James & Associates - Analyst*

Okay. And you mentioned a little bit about like telecom might be up a little bit. I was wondering if you could talk about what's driving that and is that sort of more of a something that happens, continues to evolve over the next couple quarters or is that just from some lumpiness or any color there would be helpful.

Vincent Roche - *Analog Devices Inc - VP - Strategic Markets Segment, Worldwide Sales*

Well, I think in the third quarter, demand was generally strong across the globe. And I think our sales were certainly crimped by the lack of supply to our largest customers as a result of the tsunami in Japan. But what we're being told by our largest customers is that they're optimistic about the second half of the calendar year. And we're expecting to have good results in the fourth quarter, and hopefully in the first quarter as well. But I think overall, there's a very strong build-out in China, particularly in the replacement of the GSM cycle, TDS, CDMA, and particularly in the developed world the build-out of LTE 4G is moving at a fair pace.

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

The only we can report is what customers tell us. We have very significant share in that business, particularly in the analog part of the bill of materials, and we have that share, the largest market shareholder in the wireless business. So, I mean, what Vince said is what they're telling us, and that's why we believe that in the absence of real economic uncertainty accelerating, that -- I mean, that's what those customers believe. So we'll have to wait and see how that turns out.

Steven Smigie - *Raymond James & Associates - Analyst*

If I could slip a follow-up on that. Specific thoughts on the optical market the build-out of -- to 40 and 100 gigabit per second infrastructure, and is that any different sort of short-term, anything else.

Vincent Roche - *Analog Devices Inc - VP - Strategic Markets Segment, Worldwide Sales*

As you probably know, most of the action in the optical build-out is in the energy sector. The edge for 10-G. I think in terms of 40 gig, 100 gig, there's certainly technologies for the future but most of the action we see is 10 gig and also to some extent 2.5 gig. Certainly in terms of the volumes. There's certainly a deployment of 40, 100 gig in the core, but we're expecting -- in terms of volumes, we certainly expect 10 gig to be dominant.

Operator

And the next question is from Jim Covello with Goldman Sachs.

Jim Covello - *Goldman Sachs - Analyst*

Hi, guys, thanks so much for taking my question. I appreciate it. Dave, I heard what you said earlier about inventory being down a couple of days. Was that specific to your balance sheet or the [disties] or some combination of both?

Dave Zinsner - *Analog Devices Inc - VP Finance and CFO*

I would call it some combination of both. Basically, we're looking at inventory holistically, the inventory on our balance sheet, inventory at distribution. We know in aggregate, they're going to be down, difficult to determine how much distributors will drop their inventory versus what we'll do with our inventory. In aggregate, we expect inventory to be down.

Jim Covello - *Goldman Sachs - Analyst*

This question's a little tricky to ask clearly so I hope I can pull this off, but if I look at how much inventory grew on the distributors' balance sheets this quarter and then their guidance for their component sales to be down in the upcoming September quarter, do their orders on you -- are their orders on you consistent with that? If that's clear.

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

Well, their orders on us have been weak during the third quarter. I don't think there's any doubt about that. In our conversations with the distributors, I mean, they seem to indicate they want to get their inventories down. They haven't issued any massive directives at their product people to desecrate the inventories. But I think having said that, we've seen the orders from the distributors on analog go down at a faster pace than the orders of our customers on other things.

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Jim Covello - *Goldman Sachs - Analyst*

Okay.

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

And that's indicative of the distributors going to reduce inventory. And that's -- we've been through these cycles for sorry to admit the better part of 20 years and that's what you typically see during these periods, where the distributors wake up and they say oh, my God I've got too much inventory and they start flushing it. The customers a lot less so than distributors. When you look at all these book-to-bill ratios and all these things that classically everybody focuses on to try to predict the future in these kind of times they're totally useless. Unless you understand what's going on with the inventory, all that other stuff doesn't mean anything.

Jim Covello - *Goldman Sachs - Analyst*

Sure.

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

Those numbers can change quickly on the upside as they do on the down side. So that's the best we can do on that.

Jim Covello - *Goldman Sachs - Analyst*

I appreciate that. If I could ask just one other one. How do you think -- I heard what you said about utilization, Dave. How do you think about breaking that up between your internal wafer starts. Are you going to favor internal wafer starts over outsourcing in order to keep the utilization a little bit higher, or how does that break down?

Dave Zinsner - *Analog Devices Inc - VP Finance and CFO*

We're really managing utilization to manage the inventory levels, to make them at an appropriate level to keep our lead times short but not build inventory that we're not going to need and we're going to have to throw away.

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

A lot of the products we have, there's a small amount of products that are fungible between external foundries and our internal fabs, but mostly, there's a very fine line, CMOS products, we don't build internally. We don't have much of an ability or interest in sort of taking stuff that we're building at TSMC and bringing it inside, although we have some ability to do that. As Dave said, we just manage the internal factories to the internal loads that we see from our customers on those things and try to keep the inventories reasonably low but still be responsive to get some upside. With all the doom and gloom out there right now, a month or two months from now the world could think very differently about it.

The one thing we learned from the last cycle is you keep your lead times short. So we manage the inventory to keep the lead times short. Last quarter, a very interesting statistic is we shipped 99% of our revenues with less than four week lead times. And that's what we intend to keep doing. And if the cost of that's a little bit extra inventory, fine, but we're not going to let the inventories run up because we like to get the upside when the orders go out. That's the complicated formula that we follow. And that's the way we want run the manufacturing loading.

Dave Zinsner - *Analog Devices Inc - VP Finance and CFO*

One of the other things that might be part of this question is our gross margins at 65% to 66% are really good relative to where they may have been in other cycles where we've seen a decline in our revenue. And the reason is we fundamentally have lowered the cost per unit of our products and so if you look at 2008, even in our peak, we were generating 61% operating margins. We were generating 400 to 500 basis points higher than that because our cost per unit is actually fundamentally lower than that.

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

A lot of the questions we've gotten over the last couple quarters have been the things we talk about, about the variability of the fixed cost structure and the lower levels of the variable cost structure, manufacturing, are those real or are those just anomalies. And I think what we're beginning to see is that we have sort of thought all along, that these are not fleeting cost reductions and changes in expense format. They're lasting.

When you can put the kind of results up that we put up this quarter, even though they were lower than we had thought when we had a pretty sudden and relatively unexpected decline in revenues, and we're expecting -- this a wide variability on the numbers for next quarter. We're still expecting to earn very significant profits. I think that's a sign that the kind of things we've done are now part of the business model at ADI.

Operator

The next question is from Stacy Rasgon with Sanford Bernstein.

Stacy Rasgon - *Sanford C. Bernstein & Company, Inc. - Analyst*

Hi, guys. Thanks for taking my questions. One question on the margin guidance. Looks a little lighter than in recent prior quarters when you were at similar levels within your current guidance range. I'd point you to maybe Q2 or Q3 2010 or even Q1 of 2011.

Just wondering if you can give me some feeling for what's different from Q4 versus those prior quarters? Is it only utilization levels? Is it mix? Is it pricing, is it something else?

Dave Zinsner - *Analog Devices Inc - VP Finance and CFO*

Pricing has actually been improving. Mix may be playing a factor in that. I'd have to go back and look at it. I think the major difference is we were in a cycle where we were building inventory on our balance sheet, at least collectively between the balance sheets of our balance sheet and our distributors' balance sheet.

We're in the opposite situation this time, where we're looking to drop the aggregate inventory. And so utilization's down a little bit more than or meaningfully lower than where it had been at that point in time. So that's really the difference.

Stacy Rasgon - *Sanford C. Bernstein & Company, Inc. - Analyst*

That's helpful. And if I can ask a quick follow-up. I know you said seasonality obviously is extremely difficult. If I were to just go through the exercise right now and roll out what I would view as typical seasonality on your Q4 guidance and the mid-point, I get for 2012 revenue growth basically flat versus 2011. Do you think it's possible to get flat revenue growth next year versus this year? What sort of an economic environment would you think would be required potentially to see flat or maybe even -- flat revenue growth versus increase versus declines for 2012?

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

Well, I think we would have to see a better, more stable economic environment. I think that it's always very dangerous to try to project future quarters based on one or two quarters of inventory build. We were on -- before the world came unglued here, both on the supply side and potentially on the demand side next quarter, we were on a pretty good revenue build-up.

So I think for us, at least, trying to go through the sequential quarters and come up with a real estimate for next year is very, very difficult right now. I mean, we wouldn't have predicted the kind of quarter-to-quarter buildup we saw last year in some of these quarters. I just don't know enough to make a prediction.

The one thing that I'm pretty confident about is, if we get a fair shake in the market, we can outgrow the market as we have. And we can do at least as well, maybe better than most of our competitors, given the product mix we have and the momentum we have with the large customers. So we'll have to wait and see. We're in the process right now of trying to put together our 2012 plan.

It's certainly not lacking opportunities our products and technical people have gone through it and we're just trying to avoid right now either reacting too strongly or too weakly to very large vicissitudes of changes in demand in the short term based on factors that are not necessarily long-term. As we get closer, when we look at Q4 and we see where that turned out, we look at the order rates and we look at the demand patterns, I think as we close out the year, we'll have a much more informed view of what's going to be possible in 2012.

Stacy Rasgon - *Sanford C. Bernstein & Company, Inc. - Analyst*

If it's true that what we're seeing right now is primarily supply driven and it turns out the demand scenario is not terribly dire, it would be reasonable to expect a revenue snapback at some point once the supply issues are worked through, isn't that correct?

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

The major angst that we have about Q4, I think I mentioned in the opening remarks, much more about what's going to happen with demand than what's going to happen on the supply issue, although I think the supply issue will probably still linger a little bit longer. Certainly it will modulate from what we saw last quarter. Mostly about trying to predict what's going to happen in the macro sense. In that sense, you're probably smarter about that than we are.

Stacy Rasgon - *Sanford C. Bernstein & Company, Inc. - Analyst*

I doubt that, actually. Is it just the fact that you're getting very limited visibility from your customers that's basically driving the caution around the demand environment in Q4?

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

I think -- I keep yelling at Vince, our sales guys, about why can't you be more accurate. And their response is the customers don't know what's going to happen. And I think what happens in companies with all this uncertainty, the wild gyrations go on in the stock market and all the forecasts of economic -- who knows what's going to happen. I just think customers can't predict what's going to happen and therefore the purchasing groups try to keep the vendors honest and sort of keep -- they don't tell you what's going to be bad until it's bad. And we try to look at that and judge it.

But I think what's really the case, the customers just don't know what's going to happen in the short term with their business. Therefore, it's very hard for us to one step down the food chain from that to come up with a very informed opinion of what's going to happen next quarter that we have a lot of confidence. There are too many variables.

We at analog, we have a very broad product line. We serve so many customers, so many markets, so many geographies, in a stable market, the law of large numbers really helps us. But one is up, and one is down and everything sort of evens out and we're generally pretty close to what our expectations are.

Right now there's too many things moving in too many directions to be precise about. I wish I could be and I'm sure you would like us to be. But when we look at ourselves in the mirror, we just don't know.

Operator

The next question is from Parker Paulin with Wells Fargo.

Parker Paulin - *Wells Fargo Securities - Analyst*

Hi there. Thanks for taking the call. Couple of questions. You've kind of hit on shades of them. But I was curious as to your operating margins, long-term, this quarter and last couple quarters you've been up in the 35%-plus range. Looks like next quarter you're kind of guiding a little bit below that. Do you think this is a range that's sustainable for you?

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

Yes, I mean, our sense nothing that happened this quarter would change that view is that we think with the mix of business we have, with the continuing pressure on the cost structure of the Company, with continuing pricing power that we continue to enjoy in the market. We think that these kind of margins are quite sustainable going forward and we think when the revenues are moving in the right direction, they could move above these lines.

Parker Paulin - *Wells Fargo Securities - Analyst*

Great. Thanks. And second one. You've kind of hit on the sort of future outlook and a little higher overview but I was just curious if we might be able to get any additional color in terms of the industrial breakout this quarter.

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

I think only what I said, that the strength in the industrial business was more in the factory automation, instrumentation side, the weakness seemed to be more in the test equipment side and we consider medical as part of the industrial -- part of the business. But as I said earlier, it's not -- these aren't large differences but they're minor differences but nevertheless differences.

Parker Paulin - *Wells Fargo Securities - Analyst*

Thank you very much.

Operator

The next question is from Shawn Webster with Macquarie.

Shawn Webster - *Macquarie Research - Analyst*

Yes, thanks for squeezing me in. I assume it was below one, but was book-to-bill below one in the quarter?

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

Yes.

Shawn Webster - *Macquarie Research - Analyst*

Okay.

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

As I said earlier, I wouldn't think one thing or the other as a result of that.

Shawn Webster - *Macquarie Research - Analyst*

Right.

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

Inventories are being liquidated. So it's an interesting but mostly irrelevant statistic.

Shawn Webster - *Macquarie Research - Analyst*

Okay, but we like to track those kind of things anyway.

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

I know you do. We track it too but our predictability of using that as an indicator of our next quarter's sales as we found out this quarter when book-to-bill was well above one last quarter, at least for us, it's not very enlightening.

Shawn Webster - *Macquarie Research - Analyst*

Okay. Understood. And then just a couple smaller ones. Have you noticed any overall change in your mix in the last month or in the last few weeks where people are trying -- are buying the lower end SKUs. And then the other question was on the consumer area that was less than expected, what application area was that?

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

Well, we're not seeing any real differences. I mean, customers are buying what they're selling. The product they have is selling. We tend not to be in very many low-end products. But generally, I don't think there's anything that is noteworthy about the kind of products that people are buying.

Our average selling prices which are represented in the mix were relatively constant. So I don't think there's anything really noteworthy on that. The second question?

Dave Zinsner - *Analog Devices Inc - VP Finance and CFO*

Specific consumer, was it, Shawn?

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

It was a broad base of consumer products that in second quarter went down a lot. They recovered a little bit in Q3. The backlogs went up a little bit so maybe it will recover a little bit more in Q4, in line with normal seasonality, back-to-school, all that kind of stuff. But we'll have to wait and see how that happens. Wasn't any one particular application.

Operator

The next question is from Romit Shah with Nomura.

Romit Shah - *Nomura Asset Management - Analyst*

Hi, guys. Dave. Accounting question for you. Utilization's coming down this quarter I think you said in the low 70% range. Does that fully get reflected in gross margins, or does it spill into October because you have to sell the inventory?

Dave Zinsner - *Analog Devices Inc - VP Finance and CFO*

Usually when the variances kind of go negative, that generally just flows right through the P&L.

Romit Shah - *Nomura Asset Management - Analyst*

So is it fair to say that if October is the bottom for revenues, that it's also probably the bottom for gross margin?

Dave Zinsner - *Analog Devices Inc - VP Finance and CFO*

Yes, obviously it depends on what the aggregate inventory levels are going to do in the following quarter. But if the following quarter they've stabilized or moving up because revenue's increasing, then I think you could say that's a trough.

Romit Shah - *Nomura Asset Management - Analyst*

Okay. Thank you.

Operator

The next question is from Vijay Rakesh with Sterne Agee.

Vijay Rakesh - *Sterne, Agee & Leach - Analyst*

Thanks. Just wondering, when you look at your inventory levels in house, do you see that you need to work down a little bit? I know there's been a couple of questions already on it. Just want to get your thoughts.

Dave Zinsner - *Analog Devices Inc - VP Finance and CFO*

So the question is whether the inventory levels on our balance sheet need to come down? Is that what the question was?

Vijay Rakesh - *Sterne, Agee & Leach - Analyst*

Yes.

Dave Zinsner - *Analog Devices Inc - VP Finance and CFO*

Yes, I think we always take a look at this in aggregate. We certainly at 110 days of inventory are at the kind of high end of our range. We are over time looking to bring those down closer to 100 days. But we're just -- as a process in the near term, we look at the aggregate inventory between what we have on our balance sheet, what the distributors have on their balance sheet, and we look to try to in aggregate bring those down.

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

I think it's also true that we in the past have carried much larger inventories than that, and we rarely have write-downs of those inventories because the -- particularly the internal products we build have such long life cycles. The reason that we're trying to keep the inventories lower than the peak levels that we've had in the past is just for the reason that the question that just got asked, we've found that it's much better for us to have a much more rapid snapback in the gross margins than try to preserve another point or so of gross margins by keeping the factories overloaded. We really run the Company around the lead times, so we're going to make sure that the lead times stay low and that's going to determine the inventory, rather than the other way around.

Vijay Rakesh - *Sterne, Agee & Leach - Analyst*

And the industrial, I know you mentioned things are still looking pretty stable. What's your book-to-bill there as you look on? I know it's not -- it has not been a good indicator. What has been the book-to-bill on the industrial side?

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

I don't have that data. We don't break it down by industry segments. I'm sorry, we don't have that data.

Operator

The next question is from John Pitzer from Credit Suisse.

John Pitzer - *Credit Suisse - Analyst*

Yes guys, thanks for taking my question. Jerry, you mentioned in your prepared comments that you missed some revenue opportunity in the July quarter out of the COGS infrastructure business. Component shortages, I'm kind of curious, how much was that and do you expect to make that back in the October quarter?

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

The first answer is simpler than the second one. The first answer was probably 40% of the revenue mix. And I think over time we'll make that back. It all depends what happens with the ultimate demand from those customers, but it was a fairly significant number.

John Pitzer - *Credit Suisse - Analyst*

Jerry, was that 40% to the low end of guide or to the midpoint?

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

To the midpoint.

Dave Zinsner - *Analog Devices Inc - VP Finance and CFO*

Yes, to the midpoint.

John Pitzer - *Credit Suisse - Analyst*

And then guys, when you look at the midpoint of guidance for the October quarter, can you help me understand what normal linearity is for this quarter? And does the midpoint assume normal linearity or do you expect that you're not going to see what I would expect to be relatively stronger months in September, October?

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

Typically, I think Dave alluded to this earlier. We see August being relatively weak, particularly in Europe. And then we see a stronger September and a much stronger October. That's typically the linearity of the quarter and that's the linearity that we're planning on for this quarter.

John Pitzer - *Credit Suisse - Analyst*

Great. Thanks, guys.

Operator

The final question is from David Wu with Indaba Global Research.

David Wu - *Indaba Global Research - Analyst*

Hello, Jerry. Hope you had a good trip. Quick question on geography.

If I were to look at your business, Europe, Western Europe, United States, and Japan, if you add those three up, how much of that business would it be? And correspondingly, what about those emerging markets, how big are those in terms of your total revenue mix?

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

I'll delegate that to David who has all the numbers.

Dave Zinsner - *Analog Devices Inc - VP Finance and CFO*

David, I'm sorry, I missed what you said. What was the components of the one you wanted?

David Wu - *Indaba Global Research - Analyst*

Well, US, Europe, Western Europe and Japan, can you give an idea of what percentage of the business that is? And if you look at the BRIC countries, the Brazil, India, China, how big would that be?

Dave Zinsner - *Analog Devices Inc - VP Finance and CFO*

Okay. So basically about 50% -- I don't know if I'm answering it correctly but 50% of our revenue came from the US and Europe and the rest of North America. If you add Japan, that's another 13%. And the rest is China and Asia-Pac.

David Wu - *Indaba Global Research - Analyst*

Okay. Thank you.

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

Okay. That concludes our Q&A session. We appreciate your participation and look forward to talking with all of you again during our fourth quarter 2011 earnings call scheduled for November 21st, beginning at 5.00 PM. Thanks very much.

Operator

This concludes today's Analog Devices conference call. You may now disconnect.
