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

Form 10-Q

(Mark One)

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

For the quarterly period ended April 29, 2017

OR

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

For the transition period from _____ to _____

Commission File No. 1-7819

Analog Devices, Inc.

(Exact name of registrant as specified in its charter)

Massachusetts

(State or other jurisdiction of incorporation or organization)

One Technology Way, Norwood, MA

(Address of principal executive offices)

04-2348234

(I.R.S. Employer Identification No.)

02062-9106

(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 ☒ NO ☐

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

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

Large accelerated filer ☒

Accelerated filer ☐

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

Smaller reporting company ☐

Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

As of April 29, 2017 there were 367,011,463 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 | |
|---|--------------------|----------------|------------------|----------------|
| | April 29, 2017 | April 30, 2016 | April 29, 2017 | April 30, 2016 |
| Revenue | \$ 1,147,982 | \$ 778,766 | \$ 2,132,431 | \$ 1,548,195 |
| Cost of sales (1) | 507,539 | 267,863 | 843,484 | 559,999 |
| Gross margin | 640,443 | 510,903 | 1,288,947 | 988,196 |
| Operating expenses: | | | | |
| Research and development (1) | 235,232 | 160,235 | 419,186 | 317,663 |
| Selling, marketing, general and administrative (1) | 190,686 | 112,186 | 321,345 | 219,648 |
| Amortization of intangibles | 68,690 | 17,419 | 86,850 | 34,777 |
| Special charges | — | 13,684 | 49,463 | 13,684 |
| | 494,608 | 303,524 | 876,844 | 585,772 |
| Operating income | 145,835 | 207,379 | 412,103 | 402,424 |
| Nonoperating expense (income): | | | | |
| Interest expense | 71,636 | 18,455 | 114,250 | 31,517 |
| Interest income | (12,421) | (5,243) | (22,421) | (8,442) |
| Other, net | (94) | (743) | 251 | 2,262 |
| | 59,121 | 12,469 | 92,080 | 25,337 |
| Income before income taxes | 86,714 | 194,910 | 320,023 | 377,087 |
| (Benefit) provision for income taxes | (6,850) | 24,337 | 9,330 | 42,010 |
| Net income | \$ 93,564 | \$ 170,573 | \$ 310,693 | \$ 335,077 |
| Shares used to compute earnings per share – basic | 341,316 | 308,790 | 325,051 | 309,978 |
| Shares used to compute earnings per share – diluted | 345,654 | 312,250 | 329,365 | 313,521 |
| Basic earnings per share | \$ 0.27 | \$ 0.55 | \$ 0.96 | \$ 1.08 |
| Diluted earnings per share | \$ 0.27 | \$ 0.55 | \$ 0.94 | \$ 1.07 |
| Dividends declared and paid per share | \$ 0.45 | \$ 0.42 | \$ 0.87 | \$ 0.82 |
| (1) Includes stock-based compensation expense as follows: | | | | |
| Cost of sales | \$ 2,566 | \$ 1,986 | \$ 4,510 | \$ 4,078 |
| Research and development | \$ 11,910 | \$ 6,646 | \$ 18,931 | \$ 13,350 |
| Selling, marketing, general and administrative | \$ 8,010 | \$ 7,327 | \$ 15,574 | \$ 14,140 |

See accompanying notes.

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

| | Three Months Ended | | Six Months Ended | |
|---|--------------------|-------------------|-------------------|-------------------|
| | April 29, 2017 | April 30, 2016 | April 29, 2017 | April 30, 2016 |
| Net income | \$ 93,564 | \$ 170,573 | \$ 310,693 | \$ 335,077 |
| Foreign currency translation adjustments | 6,140 | 8,050 | 1,178 | (64) |
| Change in fair value of available-for-sale securities classified as short-term investments (net of taxes of \$5, \$42, \$9 and \$42, respectively) | (675) | 605 | (456) | 530 |
| Change in fair value of derivative instruments designated as cash flow hedges (net of taxes of \$912, \$1,495, \$2,307 and \$1,138, respectively) | 4,481 | 7,880 | 6,566 | 6,300 |
| Changes in pension plans including prior service cost, transition obligation, net actuarial loss and foreign currency translation adjustments (net of taxes of \$103, \$52, \$205 and \$102 respectively) | (359) | (453) | (180) | 360 |
| Other comprehensive income | 9,587 | 16,082 | 7,108 | 7,126 |
| Comprehensive income | <u>\$ 103,151</u> | <u>\$ 186,655</u> | <u>\$ 317,801</u> | <u>\$ 342,203</u> |

See accompanying notes.

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

| | April 29, 2017 | October 29, 2016 |
|---|----------------|------------------|
| ASSETS | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 5,697,743 | \$ 921,132 |
| Short-term investments | 490,629 | 3,134,661 |
| Accounts receivable | 630,353 | 477,609 |
| Inventories (1) | 647,858 | 376,555 |
| Prepaid income tax | 9,490 | 6,405 |
| Prepaid expenses and other current assets | 59,394 | 58,501 |
| Total current assets | 7,535,467 | 4,974,863 |
| Property, Plant and Equipment, at Cost | | |
| Land and buildings | 784,394 | 564,329 |
| Machinery and equipment | 2,287,022 | 1,994,115 |
| Office equipment | 63,533 | 58,785 |
| Leasehold improvements | 66,266 | 59,649 |
| | 3,201,215 | 2,676,878 |
| Less accumulated depreciation and amortization | 2,111,896 | 2,040,762 |
| Net property, plant and equipment | 1,089,319 | 636,116 |
| Other Assets | | |
| Deferred compensation plan investments | 27,323 | 26,152 |
| Other investments | 28,492 | 21,937 |
| Goodwill | 12,269,501 | 1,679,116 |
| Intangible assets, net | 5,587,862 | 549,368 |
| Deferred tax assets | 32,711 | 36,005 |
| Other assets | 52,008 | 46,721 |
| Total other assets | 17,997,897 | 2,359,299 |
| | \$ 26,622,683 | \$ 7,970,278 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current Liabilities | | |
| Accounts payable | \$ 190,245 | \$ 171,439 |
| Deferred income on shipments to distributors, net | 377,792 | 351,538 |
| Income taxes payable | 60,563 | 4,100 |
| Debt, current | 4,321,169 | — |
| Accrued liabilities | 499,513 | 255,857 |
| Total current liabilities | 5,449,282 | 782,934 |
| Non-current liabilities | | |
| Long-term debt | 8,572,364 | 1,732,177 |
| Deferred income taxes | 2,431,410 | 109,931 |
| Deferred compensation plan liability | 27,323 | 26,152 |
| Other non-current liabilities | 175,709 | 153,466 |
| Total non-current liabilities | 11,206,806 | 2,021,726 |
| 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, 367,011,463 shares outstanding (308,170,560 on October 29, 2016) | 61,170 | 51,363 |
| Capital in excess of par value | 5,144,636 | 402,270 |
| Retained earnings | 4,827,495 | 4,785,799 |
| Accumulated other comprehensive loss | (66,706) | (73,814) |
| Total shareholders' equity | 9,966,595 | 5,165,618 |
| | \$ 26,622,683 | \$ 7,970,278 |

(1) Includes \$3,007 and \$2,486 related to stock-based compensation at April 29, 2017 and October 29, 2016, respectively.
See accompanying notes.

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

| | Six Months Ended | |
|---|------------------|----------------|
| | April 29, 2017 | April 30, 2016 |
| Cash flows from operating activities: | | |
| Net income | \$ 310,693 | \$ 335,077 |
| Adjustments to reconcile net income to net cash provided by operations: | | |
| Depreciation | 83,151 | 66,692 |
| Amortization of intangibles | 108,717 | 36,787 |
| Cost of goods sold for inventory acquired | 121,113 | — |
| Stock-based compensation expense | 39,015 | 31,568 |
| Loss on extinguishment of debt | — | 3,290 |
| Excess tax benefit-stock options | (25,953) | (4,198) |
| Deferred income taxes | (87,035) | (7,178) |
| Other non-cash activity | 24,149 | 1,244 |
| Changes in operating assets and liabilities | 262,106 | 76,626 |
| Total adjustments | 525,263 | 204,831 |
| Net cash provided by operating activities | 835,956 | 539,908 |
| Cash flows from investing activities: | | |
| Purchases of short-term available-for-sale investments | (705,448) | (3,571,764) |
| Maturities of short-term available-for-sale investments | 3,091,873 | 2,932,226 |
| Sales of short-term available-for-sale investments | 357,388 | 150,266 |
| Additions to property, plant and equipment | (75,266) | (48,645) |
| Payments for acquisitions, net of cash acquired | (9,687,533) | (2,203) |
| Changes in other assets | (12,063) | (9,457) |
| Net cash used for investing activities | (7,031,049) | (549,577) |
| Cash flows from financing activities: | | |
| Early termination of debt | — | (378,156) |
| Payments of derivative instruments | — | (33,430) |
| Proceeds from debt | 11,156,164 | 1,235,331 |
| Payments of deferred financing fees | (5,625) | — |
| Proceeds from derivative instruments | 3,904 | — |
| Dividend payments to shareholders | (268,997) | (254,583) |
| Repurchase of common stock | (26,980) | (345,627) |
| Proceeds from employee stock plans | 87,273 | 22,709 |
| Changes in other financing activities | (16) | (5,330) |
| Excess tax benefit-stock options | 25,953 | 4,198 |
| Net cash provided by financing activities | 10,971,676 | 245,112 |
| Effect of exchange rate changes on cash | 28 | (134) |
| Net increase in cash and cash equivalents | 4,776,611 | 235,309 |
| Cash and cash equivalents at beginning of period | 921,132 | 884,353 |
| Cash and cash equivalents at end of period | \$ 5,697,743 | \$ 1,119,662 |

See accompanying notes.

ANALOG DEVICES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED APRIL 29, 2017
(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 October 29, 2016 (fiscal 2016) 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 28, 2017 (fiscal 2017) or any future period.

Certain amounts reported in previous periods have been reclassified to conform to the fiscal 2017 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 2017 and fiscal 2016 are 52-week fiscal years.

Acquisition of Linear Technology Corporation

On March 10, 2017 (Acquisition Date), the Company completed the acquisition of Linear Technology Corporation (Linear), a designer, manufacturer and marketer of high performance analog integrated circuits. The total consideration paid to acquire Linear was approximately \$15.8 billion, consisting of \$11.1 billion in cash financed through existing cash on hand, net proceeds from bridge and term loan facilities and proceeds received from the issuance of senior unsecured notes, \$4.6 billion from the issuance of the Company's common stock and \$0.1 billion of consideration related to the replacement of outstanding equity awards held by Linear employees. The acquisition of Linear is referred to as the Acquisition. The condensed consolidated financial statements included in this Quarterly Report on Form 10-Q include the financial results of Linear prospectively from the Acquisition Date. See Note 13, *Debt* and Note 15, *Acquisitions*, of these Notes to Condensed Consolidated Financial Statements for further information.

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 in certain foreign countries. Revenue from product sales to customers in other foreign countries is recognized subsequent to product shipment. Title for shipments to these other foreign countries ordinarily passes 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, subcontractor 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.

Revenue from product sales to certain international distributors are made under agreements that permit limited stock return privileges but not sales price rebates. Revenue on these sales is recognized upon shipment at which time title passes.

The Company defers revenue and the related cost of sales on shipments to U.S. distributors and certain international 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 certain of these distributors are made under agreements that allow such 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, such distributors are allowed to return unsold products if the Company terminates the relationship with the distributor.

Certain 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.

Certain 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 certain 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 certain distributors until the distributors have sold the products to their customers.

Generally, 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 April 29, 2017 and October 29, 2016, the Company had gross deferred revenue of \$527.7 million and \$432.3 million, respectively, and gross deferred cost of sales of \$149.9 million and \$80.8 million, respectively. As of April 29, 2017, approximately \$64.8 million of the deferred revenue and deferred cost of sales related to the Acquisition.

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 April 29, 2017 and April 30, 2016 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/awards. 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.

Linear Replacement Awards — In connection with the Acquisition, the Company issued equity awards, consisting of restricted stock awards and restricted stock units (replacement awards), to certain Linear employees in replacement of Linear equity awards. The replacement awards consisted of restricted stock awards and restricted stock units for approximately 2.8 million shares of the Company's common stock with a weighted average grant date fair value of \$82.20. The terms and intrinsic value of these replacement awards are substantially the same as the converted Linear awards. The fair value of the replacement awards associated with services rendered through the Acquisition Date was recognized as a component of the total preliminary estimated acquisition consideration, and the remaining fair value of the replacement awards associated with post-Acquisition services will be recognized as an expense on a straight-line basis over the remaining vesting period.

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 2017 or fiscal 2016 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 April 29, 2017 and April 30, 2016 are as follows:

| <u>Stock Options</u> | <u>Three Months Ended</u> | | <u>Six Months Ended</u> | |
|---|---------------------------|-----------------------|-------------------------|-----------------------|
| | <u>April 29, 2017</u> | <u>April 30, 2016</u> | <u>April 29, 2017</u> | <u>April 30, 2016</u> |
| Options granted (in thousands) | 1,362 | 1,679 | 1,376 | 1,715 |
| Weighted-average exercise price | \$83.35 | \$54.90 | \$83.19 | \$54.90 |
| Weighted-average grant-date fair value | \$17.27 | \$12.81 | \$17.21 | \$12.79 |
| Assumptions: | | | | |
| Weighted-average expected volatility | 26.4% | 34.3% | 26.4% | 34.3% |
| Weighted-average expected term (in years) | 5.1 | 5.1 | 5.1 | 5.1 |
| Weighted-average risk-free interest rate | 2.1% | 1.4% | 2.1% | 1.4% |
| Weighted-average expected dividend yield | 2.2% | 3.1% | 2.2% | 3.1% |

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 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 April 29, 2017 and April 30, 2016 using the Monte Carlo simulation model are as follows:

| <u>Market-based Restricted Stock Units</u> | <u>Three and Six Months Ended</u> | <u>Three and Six Months Ended</u> |
|--|-----------------------------------|-----------------------------------|
| | <u>April 29, 2017</u> | <u>April 30, 2016</u> |
| Units granted (in thousands) | 59 | 102 |
| Grant-date fair value | \$94.25 | \$58.95 |
| Assumptions: | | |
| Historical stock price volatility | 26.0% | 25.1% |
| Risk-free interest rate | 1.6% | 1.1% |
| Expected dividend yield | 2.2% | 3.0% |

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 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 April 29, 2017. 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 April 29, 2017 and April 30, 2016, the Company had a sufficient APIC pool to cover any tax deficiencies recorded and as a result, these deficiencies did not affect its results of operations.

Stock-Based Compensation Activity

A summary of the Company's stock option activity as of April 29, 2017 and changes during the three- and six-month periods then ended is presented below:

| <u>Activity during the Three Months Ended April 29, 2017</u> | <u>Options Outstanding (in thousands)</u> | <u>Weighted- Average Exercise Price Per Share</u> | <u>Weighted- Average Remaining Contractual Term in Years</u> | <u>Aggregate Intrinsic Value</u> |
|---|---|---|--|--|
| Options outstanding at January 28, 2017 | 10,704 | \$45.22 | | |
| Options granted | 1,362 | \$83.35 | | |
| Options exercised | (1,300) | \$40.89 | | |
| Options forfeited | (236) | \$53.93 | | |
| Options outstanding at April 29, 2017 | 10,530 | \$50.49 | 6.4 | \$280,415 |
| Options exercisable at April 29, 2017 | 6,016 | \$41.21 | 4.9 | \$210,535 |
| Options vested or expected to vest at April 29, 2017 (1) | 10,101 | \$49.82 | 6.3 | \$274,918 |

- (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.

| <u>Activity during the Six Months Ended April 29, 2017</u> | Options Outstanding (in thousands) | Weighted- Average Exercise Price Per Share |
|--|---|---|
| Options outstanding at October 29, 2016 | 11,704 | \$44.43 |
| Options granted | 1,377 | \$83.19 |
| Options exercised | (2,268) | \$38.69 |
| Options forfeited | (277) | \$53.65 |
| Options expired | (6) | \$33.19 |
| Options outstanding at April 29, 2017 | <u>10,530</u> | <u>\$50.49</u> |

During the three and six months ended April 29, 2017, 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 \$53.5 million and \$89.1 million, respectively, and the total amount of proceeds received by the Company from the exercise of these options was \$52.8 million and \$87.3 million, respectively.

During the three and six months ended April 30, 2016, 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 \$9.7 million and \$13.9 million, respectively, and the total amount of proceeds received by the Company from the exercise of these options was \$16.5 million and \$22.7 million, respectively.

A summary of the Company's restricted stock unit/award activity as of April 29, 2017 and changes during the three- and six-month periods then ended is presented below:

| <u>Activity during the Three Months Ended April 29, 2017</u> | Restricted Stock Units Outstanding (in thousands) | Weighted- Average Grant- Date Fair Value Per Share |
|--|--|---|
| Restricted stock units/awards outstanding at January 28, 2017 | 2,570 | \$50.31 |
| Units/Awards granted (a) | 3,658 | \$80.28 |
| Restrictions lapsed | (822) | \$52.26 |
| Forfeited | (93) | \$53.13 |
| Restricted stock units/awards outstanding at April 29, 2017 | <u>5,313</u> | <u>\$70.59</u> |

(a) includes 2.8 million replacement awards granted to certain Linear employees to replace outstanding Linear equity awards.

| <u>Activity during the Six Months Ended April 29, 2017</u> | Restricted Stock Units Outstanding (in thousands) | Weighted- Average Grant- Date Fair Value Per Share |
|--|--|---|
| Restricted stock units/awards outstanding at October 29, 2016 | 2,690 | \$50.11 |
| Units/Awards granted (a) | 3,663 | \$80.25 |
| Restrictions lapsed | (930) | \$51.55 |
| Forfeited | (110) | \$52.63 |
| Restricted stock units/awards outstanding at April 29, 2017 | <u>5,313</u> | <u>\$70.59</u> |

(a) includes 2.8 million replacement awards granted to certain Linear employees to replace outstanding Linear equity awards.

As of April 29, 2017, there was \$509.9 million of total unrecognized compensation cost related to unvested stock-based awards comprised of stock options and restricted stock units. That cost is expected to be recognized over a weighted-average period of 1.9 years. The total grant-date fair value of shares that vested during the three- and six-month periods ended April 29, 2017 was approximately \$61.8 million and \$66.9 million, respectively. The total grant-date fair value of shares that vested during the three- and six-month periods ended April 30, 2016 was approximately \$47.9 million and \$57.3 million, respectively.

Note 4 – 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 2017.

| | 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 |
|---|--|---|--|--|--------------------|--------------------|
| October 29, 2016 | \$ (24,063) | \$ 800 | \$ (281) | \$ (18,884) | \$ (31,386) | \$ (73,814) |
| Other comprehensive income (loss) before reclassifications | 1,178 | (751) | 286 | 1,629 | (899) | 1,443 |
| Amounts reclassified out of other comprehensive income (loss) | — | — | — | 7,244 | 923 | 8,167 |
| Tax effects | — | 19 | (10) | (2,307) | (204) | (2,502) |
| Other comprehensive income (loss) | 1,178 | (732) | 276 | 6,566 | (180) | 7,108 |
| April 29, 2017 | <u>\$ (22,885)</u> | <u>\$ 68</u> | <u>\$ (5)</u> | <u>\$ (12,318)</u> | <u>\$ (31,566)</u> | <u>\$ (66,706)</u> |

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 | | Six Months Ended | | Location |
|---|--------------------|----------------|------------------|-----------------|--|
| | April 29, 2017 | April 30, 2016 | April 29, 2017 | April 30, 2016 | |
| Unrealized holding losses (gains) on derivatives | | | | | |
| Currency forwards | \$ 1,248 | \$ 147 | \$ 2,948 | \$ 1,626 | Cost of sales |
| | 494 | 27 | 1,508 | 690 | Research and development |
| | 702 | (448) | 1,795 | 346 | Selling, marketing, general and administrative |
| Interest rate derivatives | 464 | 562 | 993 | 845 | Interest expense |
| | 2,908 | 288 | 7,244 | 3,507 | Total before tax |
| | (534) | (243) | (1,389) | (753) | Tax |
| | <u>\$ 2,374</u> | <u>\$ 45</u> | <u>\$ 5,855</u> | <u>\$ 2,754</u> | Net of tax |
| Amortization of pension components | | | | | |
| Transition obligation | \$ 3 | \$ 4 | \$ 6 | \$ 8 | (a) |
| Prior service credit | (2) | — | (4) | — | (a) |
| Actuarial losses | 466 | 176 | 921 | 343 | (a) |
| | 467 | 180 | 923 | 351 | Total before tax |
| | (103) | (52) | (204) | (102) | Tax |
| | <u>\$ 364</u> | <u>\$ 128</u> | <u>\$ 719</u> | <u>\$ 249</u> | Net of tax |
| Total amounts reclassified out of accumulated other comprehensive income (loss), net of tax | <u>\$ 2,738</u> | <u>\$ 173</u> | <u>\$ 6,574</u> | <u>\$ 3,003</u> | |

a) 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 October 29, 2016.

The Company estimates \$0.3 million of forward foreign currency derivative instruments included in OCI will be reclassified into earnings within the next twelve months. There was no ineffectiveness related to designated forward foreign currency derivative instruments in the three- and six-month periods ended April 29, 2017 and April 30, 2016.

Gross unrealized gains and losses on available-for-sale securities classified as short-term investments at April 29, 2017 and October 29, 2016 are as follows:

| | April 29, 2017 | October 29, 2016 |
|---|----------------|------------------|
| Unrealized gains on securities classified as short-term investments | \$ 95 | \$ 846 |
| Unrealized losses on securities classified as short-term investments | (8) | (294) |
| Net unrealized gains on securities classified as short-term investments | \$ 87 | \$ 552 |

As of April 29, 2017, the Company held 69 investment securities, 43 of which were in an unrealized loss position with gross unrealized losses of \$0.1 million and an aggregate fair value of \$556.7 million. As of October 29, 2016, the Company held 100 investment securities, 25 of which were in an unrealized loss position with gross unrealized losses of \$0.3 million and an aggregate fair value of \$729.6 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 April 29, 2017 and October 29, 2016.

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 5 – 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 and restricted stock units 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 and restricted stock units were excluded because they were anti-dilutive. Those potential shares, determined based on the weighted average exercise prices during the respective periods, could be dilutive in the future. In connection with the Acquisition, the Company granted restricted stock awards to replace outstanding restricted stock awards of Linear employees. These restricted stock awards entitle recipients to voting and nonforfeitable dividend rights from the date of grant. These unvested stock-based compensation awards are considered participating securities and the two-class method is used for purposes of calculating earnings per share. Under the two-class method, a portion of net income is allocated to these participating securities and therefore is excluded from the calculation of earnings per share allocated to common stock, as shown in the table below.

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

| | Three Months Ended | | Six Months Ended | |
|--|--------------------|-------------------|-------------------|-------------------|
| | April 29, 2017 | April 30, 2016 | April 29, 2017 | April 30, 2016 |
| Net Income | \$ 93,564 | \$ 170,573 | \$ 310,693 | \$ 335,077 |
| Less: income allocated to participating securities | — | — | 82 | — |
| Net income allocated to common stockholders | <u>\$ 93,564</u> | <u>\$ 170,573</u> | <u>\$ 310,611</u> | <u>\$ 335,077</u> |
| Basic shares: | | | | |
| Weighted-average shares outstanding | 341,316 | 308,790 | 325,051 | 309,978 |
| Earnings per share basic: | <u>\$ 0.27</u> | <u>\$ 0.55</u> | <u>\$ 0.96</u> | <u>\$ 1.08</u> |
| Diluted shares: | | | | |
| Weighted-average shares outstanding | 341,316 | 308,790 | 325,051 | 309,978 |
| Assumed exercise of common stock equivalents | 4,338 | 3,460 | 4,314 | 3,543 |
| Weighted-average common and common equivalent shares | <u>345,654</u> | <u>312,250</u> | <u>329,365</u> | <u>313,521</u> |
| Earnings per share diluted: | <u>\$ 0.27</u> | <u>\$ 0.55</u> | <u>\$ 0.94</u> | <u>\$ 1.07</u> |
| Anti-dilutive shares related to: | | | | |
| Outstanding stock options | 1,580 | 4,131 | 823 | 3,364 |

Note 6 – 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 actions in fiscal 2017 and fiscal 2016 and a roll-forward from October 29, 2016 to April 29, 2017 of the employee separation and exit cost accruals established related to these actions.

| | Reduction of Operating Costs Action | Early Retirement Action | Total Special Charges |
|---------------------------------------|---|-------------------------------|--------------------------|
| Statements of Income | | | |
| Fiscal 2016 - Workforce reductions | \$ 13,684 | \$ — | 13,684 |
| Fiscal 2017 - Workforce reductions | \$ 8,126 | \$ 41,337 | \$ 49,463 |
| Accrued Restructuring | | | |
| Balance at October 29, 2016 | \$ 12,374 | \$ — | |
| Fiscal 2017 - workforce reductions | 8,126 | 41,337 | |
| Severance and other payments | (2,611) | (199) | |
| Effect of foreign currency on accrual | (6) | — | |
| Balance at January 28, 2017 | \$ 17,883 | \$ 41,138 | |
| Severance and other payments | (3,987) | (697) | |
| Effect of foreign currency on accrual | 108 | — | |
| Balance at April 29, 2017 | \$ 14,004 | \$ 40,441 | |

Early Retirement Offer Action

During the first quarter of fiscal 2017, the Company initiated an early retirement offer. This resulted in a special charge of approximately \$41.3 million for severance, related benefits and other costs in accordance with this program for 225 manufacturing, engineering and selling, marketing, general and administrative (SMG&A) employees. As of April 29, 2017, the Company still employed 196 of the 225 employees included in these cost reduction actions. These employees must continue to be employed by the Company until their employment is terminated in order to receive the severance benefits.

Reduction of Operating Costs Action

During the second quarter of fiscal 2016, the Company recorded special charges of approximately \$13.7 million for severance and fringe benefit costs in accordance with the Company's ongoing benefit plan for 123 manufacturing, engineering and SMG&A employees. As of April 29, 2017, the Company still employed 24 of the 123 employees included in this cost reduction action. These employees must continue to be employed by the Company until their employment is involuntarily terminated in order to receive the severance benefits.

During the first quarter of fiscal 2017, the Company recorded special charges of approximately \$8.1 million for severance and fringe benefit costs in accordance with the Company's ongoing benefit plan or statutory requirements at foreign locations for 177 manufacturing, engineering and SMG&A employees. As of April 29, 2017, the Company still employed 163 of the 177 employees included in this cost reduction action. These employees must continue to be employed by the Company until their employment is terminated in order to receive the severance benefits.

Note 7 – Segment Information

The Company operates and tracks its results in one reportable segment based on the aggregation of seven operating segments. As of the filing date of this Quarterly Report on Form 10-Q, the assignment of goodwill resulting from the Acquisition to the Company's reporting units has not been completed. The Company designs, develops, manufactures and markets a broad range of integrated circuits (ICs). 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 ICs.
- The ICs 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 ICs 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 the Company's 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 proportionately 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. The Company is in the process of integrating Linear's results into its systems and end market classifications. As a result, revenues of Linear from the Acquisition Date are presented separately in the table below.

| | Three Months Ended | | | | |
|---|---------------------|---------------|------------|-------------------|---------------|
| | April 29, 2017 | | | April 30, 2016 | |
| | Revenue | % of Revenue* | Y/Y% | Revenue | % of Revenue* |
| Industrial | \$ 462,913 | 46 % | 20 % | \$ 384,706 | 49 % |
| Automotive | 150,418 | 15 % | 9 % | 138,398 | 18 % |
| Consumer | 205,444 | 21 % | 156 % | 80,385 | 10 % |
| Communications | 181,744 | 18 % | 4 % | 175,277 | 23 % |
| Total revenue (excluding Linear revenue) | \$ 1,000,519 | 100% | 28% | \$ 778,766 | 100% |
| Linear revenue | 147,463 | | | — | |
| Total revenue | \$ 1,147,982 | | 47% | \$ 778,766 | |

* Percentages are based on total revenue (excluding Linear revenue). The sum of the individual percentages may not equal the total due to rounding.

| | Six Months Ended | | | | |
|---|---------------------|---------------|------------|---------------------|---------------|
| | April 29, 2017 | | | April 30, 2016 | |
| | Revenue | % of Revenue* | Y/Y% | Revenue | % of Revenue* |
| Industrial | \$ 865,499 | 44 % | 18 % | \$ 733,635 | 47 % |
| Automotive | 289,182 | 15 % | 9 % | 265,046 | 17 % |
| Consumer | 475,590 | 24 % | 130 % | 207,143 | 13 % |
| Communications | 354,697 | 18 % | 4 % | 342,371 | 22 % |
| Total revenue (excluding Linear revenue) | \$ 1,984,968 | 100% | 28% | \$ 1,548,195 | 100% |
| Linear revenue | 147,463 | | | — | |
| Total revenue | \$ 2,132,431 | | 38% | \$ 1,548,195 | |

* Percentages are based on total revenue (excluding Linear revenue). The sum of the individual percentages may not equal the total due to rounding.

Revenue Trends by Geographic Region

Revenue by geographic region, based on the primary end customer location, for the three- and six-month periods ended April 29, 2017 and April 30, 2016 were as follows:

| <u>Region</u> | Three Months Ended | | Six Months Ended | |
|---------------------------------|---------------------|-------------------|---------------------|---------------------|
| | April 29, 2017 | April 30, 2016 | April 29, 2017 | April 30, 2016 |
| United States | \$ 422,328 | \$ 245,283 | \$ 853,326 | \$ 511,952 |
| Rest of North and South America | 27,630 | 21,423 | 50,587 | 42,135 |
| Europe | 293,178 | 245,160 | 519,513 | 461,876 |
| Japan | 96,289 | 69,963 | 185,180 | 140,185 |
| China | 198,209 | 140,940 | 351,192 | 279,663 |
| Rest of Asia | 110,348 | 55,997 | 172,633 | 112,384 |
| Total revenue | \$ 1,147,982 | \$ 778,766 | \$ 2,132,431 | \$ 1,548,195 |

In the three- and six-month periods ended April 29, 2017 and April 30, 2016, 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 8 – 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, presents the Company's financial assets and liabilities, excluding accrued interest components that are accounted for at fair value on a recurring basis as of April 29, 2017 and October 29, 2016. 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 April 29, 2017 and October 29, 2016, the Company held \$1,921.8 million and \$252.5 million, respectively, of cash and held-to-maturity investments that were excluded from the tables below.

| | April 29, 2017 | | | |
|---|--|---|---|--------------|
| | 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 | \$ 2,697,263 | \$ — | \$ — | \$ 2,697,263 |
| Corporate obligations (1) | — | 1,238,710 | — | 1,238,710 |
| Short-term investments: | | | | |
| Available-for-sale: | | | | |
| Securities with one year or less to maturity: | | | | |
| Corporate obligations (1) | — | 253,359 | — | 253,359 |
| Investments in municipal bonds, obligations of U.S. government-sponsored enterprises and commercial paper | — | 64,071 | — | 64,071 |
| Securities with greater than one year to maturity: | | | | |
| Investments in municipal bonds, obligations of U.S. government-sponsored enterprises and commercial paper | — | 13,199 | — | 13,199 |
| Other assets: | | | | |
| Deferred compensation investments | 30,612 | — | — | 30,612 |
| Forward foreign currency exchange contracts (2) | — | — | — | — |
| Total assets measured at fair value | \$ 2,727,875 | \$ 1,569,339 | \$ — | \$ 4,297,214 |
| Liabilities | | | | |
| Contingent consideration | — | — | 9,722 | 9,722 |
| Forward foreign currency exchange contracts (2) | — | 895 | — | 895 |
| Total liabilities measured at fair value | \$ — | \$ 895 | \$ 9,722 | \$ 10,617 |

(1) The amortized cost of the Company's investments classified as available-for-sale as of April 29, 2017 was \$1.3 billion.

- (2) The Company has a master netting arrangement by counterparty with respect to derivative contracts. See Note 9, *Derivatives*, of these Notes to Condensed Consolidated Financial Statements for more information related to the Company's master netting arrangements.

| October 29, 2016 | | | | |
|---|--|---|---|---------------------|
| 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 | \$ 277,595 | \$ — | \$ — | \$ 277,595 |
| Corporate obligations (1) | — | 415,660 | — | 415,660 |
| Short-term investments: | | | | |
| Available-for-sale: | | | | |
| Securities with one year or less to maturity: | | | | |
| Corporate obligations (1) | — | 2,518,148 | — | 2,518,148 |
| Floating rate notes, issued at par | — | 29,989 | — | 29,989 |
| Floating rate notes (1) | — | 561,874 | — | 561,874 |
| Other assets: | | | | |
| Deferred compensation investments | 26,916 | — | — | 26,916 |
| Total assets measured at fair value | \$ 304,511 | \$ 3,525,671 | \$ — | \$ 3,830,182 |
| Liabilities | | | | |
| Contingent consideration | — | — | 7,555 | 7,555 |
| Forward foreign currency exchange contracts (2) | — | 5,231 | — | 5,231 |
| Total liabilities measured at fair value | \$ — | \$ 5,231 | \$ 7,555 | \$ 12,786 |

- (1) The amortized cost of the Company's investments classified as available-for-sale as of October 29, 2016 was \$3.5 billion.
- (2) The Company has a master netting arrangement by counterparty with respect to derivative contracts. See Note 9, *Derivatives*, of these Notes to Condensed Consolidated Financial Statements 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.

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 | \$10,500 |
| Discount rate | 0% - 2% |
| Timing of cash flows | 1 - 3 years |
| Probability of achievement | 90% - 100% |

Changes in the fair value of the contingent consideration are 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 October 29, 2016 to April 29, 2017:

| | Contingent Consideration |
|---|-------------------------------------|
| Balance as of October 29, 2016 | \$ 7,555 |
| Contingent consideration liability recorded (1) | 2,000 |
| Fair value adjustment (2) | 167 |
| Balance as of April 29, 2017 | \$ 9,722 |

(1) Represents liability related to acquisitions that were not material to the Company on either an individual or aggregate basis.

(2) Recorded in research and development expense in the Company's condensed consolidated statements of income.

Financial Instruments Not Recorded at Fair Value on a Recurring Basis

On June 3, 2013, the Company issued \$500.0 million aggregate principal amount of 2.875% senior unsecured notes due June 1, 2023 (the 2023 Notes) with semi-annual fixed interest payments due on June 1 and December 1 of each year, commencing December 1, 2013. The fair value of the 2023 Notes as of April 29, 2017 and October 29, 2016 was \$496.3 million and \$501.3 million, respectively, and is classified as a Level 1 measurement according to the fair value hierarchy.

On December 14, 2015, the Company issued \$850.0 million aggregate principal amount of 3.9% senior unsecured notes due December 15, 2025 (the 2025 Notes) and \$400.0 million aggregate principal amount of 5.3% senior unsecured notes due December 15, 2045 (the 2045 Notes) with semi-annual fixed interest payments due on June 15 and December 15 of each year, commencing June 15, 2016. The fair value of the 2025 Notes and 2045 Notes as of April 29, 2017 was \$878.3 million and \$447.7 million, respectively, and are classified as a Level 1 measurements according to the fair value hierarchy. The fair value of the 2025 Notes and 2045 Notes as of October 29, 2016 was \$901.5 million and \$425.1 million, respectively.

On December 5, 2016, the Company issued \$400.0 million aggregate principal amount of 2.5% senior unsecured notes due December 5, 2021 (the 2021 Notes), \$550.0 million aggregate principal amount of 3.125% senior unsecured notes due December 5, 2023 (the December 2023 Notes), \$900.0 million aggregate principal amount of 3.5% senior unsecured notes due December 5, 2026 (the 2026 Notes) and \$250.0 million aggregate principal amount of 4.5% senior unsecured notes due December 5, 2036 (the 2036 Notes) with semi-annual fixed interest payments due on June 5 and December 5 of each year, commencing June 5, 2017. The fair value of the 2021 Notes, December 2023 Notes, 2026 Notes and 2036 Notes as of April 29, 2017 was \$399.5 million, \$553.1 million, \$900.0 million and \$252.3 million, respectively, and are classified as a Level 1 measurements according to the fair value hierarchy.

On the Acquisition Date, the Company entered into a 90-day Bridge Credit Agreement which provides for unsecured loans in an aggregate principal amount of up to \$4.1 billion and borrowed under a term loan agreement consisting of a 3-year unsecured term loan in the principal amount of \$2.5 billion, due March 10, 2020 and a 5-year unsecured term loan in the principal amount of \$2.5 billion, due March 10, 2022. The carrying amounts of the loans approximate fair value. The loans are classified as a Level 2 measurements according to the fair value hierarchy.

Note 9 – Derivatives

Foreign Exchange Exposure Management — The Company enters into forward foreign currency exchange contracts to offset certain operational and balance sheet exposures from the impact of changes in foreign currency exchange rates. Such exposures result from the portion of the Company's operations, assets and liabilities that are denominated in currencies other than the U.S. dollar, primarily the Euro; other significant exposures include the Philippine Peso, the Japanese Yen and the British Pound. These foreign currency exchange contracts are entered into to support transactions made in the normal course of business, and accordingly, are not speculative in nature. The contracts are for periods consistent with the terms of the underlying transactions, generally one year or less. Hedges related to anticipated transactions are designated and documented at the inception of the respective hedges as cash flow hedges and are evaluated for effectiveness monthly. Derivative instruments are employed to eliminate or minimize certain foreign currency exposures that can be confidently identified and quantified. As the terms of the contract and the underlying transaction are matched at inception, forward contract effectiveness is calculated by comparing the change in fair value of the contract to the change in the forward value of the anticipated transaction, with the effective portion of the gain or loss on the derivative reported as a component of accumulated OCI in shareholders' equity and reclassified into earnings in the same period during which the hedged transaction affects earnings. Any residual change in fair value of the instruments, or ineffectiveness, is recognized immediately in other (income) expense.

The total notional amount of forward foreign currency derivative instruments designated as hedging instruments of cash flow hedges denominated in Euros, British Pounds, Philippine Pesos and Japanese Yen as of April 29, 2017 and October 29, 2016 was \$172.4 million and \$179.5 million, respectively. The fair value of forward foreign currency derivative instruments designated as hedging instruments in the Company's condensed consolidated balance sheets as of April 29, 2017 and October 29, 2016 was as follows:

| | Balance Sheet Location | Fair Value At | |
|---|------------------------|----------------|------------------|
| | | April 29, 2017 | October 29, 2016 |
| Forward foreign currency exchange contracts | Accrued liabilities | \$ 1,064 | \$ 5,260 |

Additionally, the Company enters into forward foreign currency contracts that economically hedge the gains and losses generated by the re-measurement of certain recorded assets and liabilities in a non-functional currency. Changes in the fair value of these undesignated hedges are recognized in other (income) expense immediately as an offset to the changes in the fair value of the asset or liability being hedged. As of April 29, 2017 and October 29, 2016, the total notional amount of these undesignated hedges was \$89.6 million and \$46.2 million, respectively. The fair value of these undesignated hedges in the Company's condensed consolidated balance sheets as of April 29, 2017 and October 29, 2016 was immaterial.

All of the Company's derivative financial instruments are eligible for netting arrangements that allow the Company and its counterparties to net settle amounts owed to each other. Derivative assets and liabilities that can be net settled under these arrangements have been presented in the Company's condensed consolidated balance sheet on a net basis. As of April 29, 2017 and October 29, 2016, none of the master netting arrangements involved collateral. The following table presents the gross amounts of the Company's derivative assets and liabilities and the net amounts recorded in the Company's condensed consolidated balance sheet:

| | April 29, 2017 | October 29, 2016 |
|---|-----------------|-------------------|
| Gross amount of recognized liabilities | \$ (3,044) | \$ (5,788) |
| Gross amounts of recognized assets offset in the condensed consolidated balance sheet | 2,149 | 557 |
| Net liabilities presented in the condensed consolidated balance sheet | <u>\$ (895)</u> | <u>\$ (5,231)</u> |

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

The market risk associated with the Company's derivative instruments results from currency exchange rate or interest rate movements that are expected to offset the market risk of the underlying transactions, assets and liabilities being hedged. The counterparties to the agreements relating to the Company's derivative instruments consist of a number of major international financial institutions with high credit ratings. Based on the credit ratings of the Company's counterparties as of April 29, 2017 and October 31, 2016, nonperformance is not perceived to be a significant risk. Furthermore, none of the Company's derivatives are subject to collateral or other security arrangements and none contain provisions that are dependent on the Company's credit ratings from any credit rating agency. While the contract or notional amounts of derivative financial instruments provide one measure of the volume of these transactions, they do not represent the amount of the Company's exposure to credit risk. The amounts potentially subject to credit risk (arising from the possible inability of counterparties to

meet the terms of their contracts) are generally limited to the amounts, if any, by which the counterparties' obligations under the contracts exceed the obligations of the Company to the counterparties. As a result of the above considerations, the Company does not consider the risk of counterparty default to be significant.

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

For information on the unrealized holding gains (losses) on derivatives included in and reclassified out of accumulated other comprehensive income into the condensed consolidated statement of income related to forward foreign currency exchange contracts, see Note 4, *Accumulated Other Comprehensive Income (Loss)* of these Notes to Condensed Consolidated Financial Statements for further information.

Note 10 – Goodwill and Intangible Assets

Goodwill

The Company evaluates goodwill for impairment annually, as well as whenever events or changes in circumstances suggest that the carrying value of goodwill may not be recoverable. The Company tests goodwill for impairment at the reporting unit level (operating segment or one level below an operating segment) on an annual basis on the first day of the fourth quarter (on or about August 1) or more frequently if indicators of impairment exist. For the Company's latest annual impairment assessment that occurred as of July 31, 2016, the Company identified its reporting units to be its seven operating segments. As of the filing date of this Quarterly Report on Form 10-Q, the assignment of goodwill resulting from the Acquisition to the Company's reporting units has not been completed. The performance of the test involves a two-step process. The first step of the quantitative impairment test involves comparing the fair values of the applicable reporting units with their aggregate carrying values, including goodwill. The Company determines the fair value of its reporting units using a weighting of the income and market approaches. Under the income approach, the Company uses a discounted cash flow methodology which requires management to make significant estimates and assumptions related to forecasted revenues, gross profit margins, operating income margins, working capital cash flow, perpetual growth rates, and long-term discount rates, among others. For the market approach, the Company uses the guideline public company method. Under this method the Company utilizes information from comparable publicly traded companies with similar operating and investment characteristics as the reporting units to create valuation multiples that are applied to the operating performance of the reporting unit being tested in order to obtain their respective fair values. In order to assess the reasonableness of the calculated reporting unit fair values, the Company reconciles the aggregate fair values of its reporting units (determined as described above) to its current market capitalization, allowing for a reasonable control premium. If the carrying amount of a reporting unit, calculated using the above approaches, exceeds the reporting unit's fair value, the Company performs the second step of the goodwill impairment test to determine the amount of impairment loss. The second step of the goodwill impairment test involves comparing the implied fair value of the affected reporting unit's goodwill with the carrying value of that reporting unit. There was no impairment of goodwill in any period presented. The Company's next annual impairment assessment will be performed as of the first day of the fourth quarter of fiscal 2017 unless indicators arise that would require the Company to re-evaluate at an earlier date. The following table presents the changes in goodwill during the first six months of fiscal 2017:

| | Six Months Ended |
|---|-------------------------|
| | April 29, 2017 |
| Balance as of October 29, 2016 | \$ 1,679,116 |
| Goodwill related to acquisition of Linear (Note 15) | 10,584,333 |
| Goodwill related to other acquisitions (1) | 4,884 |
| Foreign currency translation adjustment | 1,168 |
| Balance as of April 29, 2017 | \$ 12,269,501 |

(1) Represents goodwill related to acquisitions that were not material to the Company on either an individual or aggregate basis.

Intangible Assets

The Company reviews finite-lived intangible assets for impairment whenever events or changes in circumstances indicate that the carrying value of assets may not be recoverable. Recoverability of these assets is determined by comparison of their

carrying value to the estimated future undiscounted cash flows the assets are expected to generate over their remaining estimated useful lives. If such assets are considered to be impaired, the impairment to be recognized in earnings equals the amount by which the carrying value of the assets exceeds their fair value determined by either a quoted market price, if any, or a value determined by utilizing a discounted cash flow technique.

Indefinite-lived intangible assets are tested for impairment on an annual basis on the first day of the fourth quarter (on or about August 1) or more frequently if indicators of impairment exist. The impairment test involves a qualitative assessment on the indefinite-lived intangible assets to determine whether it is more likely-than not that the indefinite-lived intangible asset is impaired. If it is determined that the fair value of the indefinite-lived intangible asset is less than the carrying value, the Company would recognize into earnings the amount by which the carrying value of the assets exceeds the fair value. No impairment of intangible assets resulted from the impairment tests in any of the fiscal periods presented.

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

As of April 29, 2017 and October 29, 2016, the Company's intangible assets consisted of the following:

| | April 29, 2017 | | October 29, 2016 | |
|------------------------|-----------------------|--------------------------|-----------------------|--------------------------|
| | Gross Carrying Amount | Accumulated Amortization | Gross Carrying Amount | Accumulated Amortization |
| Customer relationships | \$ 4,671,255 | \$ 244,270 | \$ 649,159 | \$ 158,979 |
| Technology-based | 1,097,030 | 31,746 | 38,731 | 9,958 |
| Trade-name | 72,800 | 1,598 | 600 | 60 |
| Backlog | 200 | 100 | 200 | — |
| IPR&D | 24,291 | — | 29,675 | — |
| Total (1)(2) | <u>\$ 5,865,576</u> | <u>\$ 277,714</u> | <u>\$ 718,365</u> | <u>\$ 168,997</u> |

(1) Foreign intangible asset carrying amounts are affected by foreign currency translation.

(2) Increases in intangible assets primarily relate to the Acquisition and other acquisitions. See Note 15, *Acquisitions*, of these Notes to Condensed Consolidated Financial Statements for further information.

Intangible assets, along with the related accumulated amortization, are removed from the table above at the end of the fiscal year they become fully amortized.

For the three- and six-month periods ended April 29, 2017, amortization expense related to finite-lived intangible assets was \$88.8 million and \$108.7 million, respectively. For the three- and six-month periods ended April 30, 2016, amortization expense related to finite-lived intangible assets was \$18.4 million and \$36.8 million, respectively. The remaining amortization expense will be recognized over an estimated weighted average life of approximately 5.1 years.

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

| <u>Fiscal Year</u> | <u>Amortization Expense</u> |
|--------------------------|-----------------------------|
| Remainder of fiscal 2017 | \$294,478 |
| 2018 | \$587,637 |
| 2019 | \$584,448 |
| 2020 | \$584,210 |
| 2021 | \$583,789 |

Note 11 – Pension Plans

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

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

| | Three Months Ended | | Six Months Ended | |
|--|--------------------|-----------------|------------------|-----------------|
| | April 29, 2017 | April 30, 2016 | April 29, 2017 | April 30, 2016 |
| Service cost | \$ 1,658 | \$ 1,394 | \$ 3,306 | \$ 2,773 |
| Interest cost | 890 | 933 | 1,774 | 1,871 |
| Expected return on plan assets | (1,017) | (959) | (2,023) | (1,940) |
| Amortization of initial net obligation | 3 | 4 | 6 | 8 |
| Amortization of prior service cost | (2) | — | (4) | — |
| Amortization of net loss | 466 | 176 | 921 | 343 |
| Net periodic pension cost | <u>\$ 1,998</u> | <u>\$ 1,548</u> | <u>\$ 3,980</u> | <u>\$ 3,055</u> |

Note 12 – Revolving Credit Facility

On December 19, 2012, the Company entered into a five-year, \$500.0 million senior unsecured revolving credit facility with certain institutional lenders (the Credit Agreement). On July 10, 2015, the Credit Agreement was amended and restated to increase the available borrowings to \$750.0 million and extend the term to July 10, 2020. On September 23, 2016, in connection with the planned acquisition of Linear, the Company amended and restated the Credit Agreement. On the Acquisition Date, the aggregate amount of commitments under the revolving credit facility increased to \$1.0 billion and the maximum covenant level was temporarily revised. To date, the Company has not borrowed under this revolving credit facility but may borrow in the future and use the proceeds for repayment of existing indebtedness, stock repurchases, acquisitions, capital expenditures, working capital and other lawful corporate purposes. Revolving loans under the Credit Agreement (other than swing line loans) bear interest, at the Company's option, at either a rate equal to (a) the Eurodollar Rate (as defined in the Credit Agreement) plus a margin based on the Company's debt rating or (b) the Base Rate (defined as the highest of (i) the Bank of America prime rate, (ii) the Federal Funds Rate (as defined in the Credit Agreement) plus 0.50% or (iii) one month Eurodollar Rate plus 1%). The Credit Agreement imposes restrictions on the Company's ability to undertake certain transactions, to create certain liens on assets and to incur certain subsidiary indebtedness. In addition, the Credit Agreement contains a consolidated leverage ratio covenant of total consolidated funded debt to consolidated EBITDA (earnings before interest, taxes, depreciation, and amortization) of not greater than 5.0 to 1.0. As of April 29, 2017, the Company was compliant with these covenants.

Note 13 – Debt

On July 26, 2016, the Company entered into a definitive agreement to acquire Linear. In connection with the Acquisition, the Company announced that it had obtained commitment financing in the form of a 364-day senior unsecured bridge facility in an aggregate principal amount of up to \$7.5 billion (364-day Bridge Commitment) and a 90-day senior unsecured bridge facility in an aggregate principal amount of up to \$4.1 billion (90-day Bridge Commitment). As discussed below, as a result of entering into the term loan facility and the issuance of \$2.1 billion senior unsecured notes, the 364-day Bridge Commitment was terminated and \$13.7 million and \$7.2 million of unamortized bridge fees relating to the 364-day Bridge Commitment were accelerated and amortized into interest expense in the fourth quarter of fiscal 2016 and first quarter of fiscal 2017, respectively. Total fees incurred by the Company for the 364-day Bridge Commitment were approximately \$27.5 million.

On the Acquisition Date, the Company entered into a 90-day Bridge Credit Agreement (the “Bridge Credit Agreement”) with JPMorgan Chase Bank, N.A., as administrative agent, and several banks and other financial institutions as lenders. The Bridge Credit Agreement provides for unsecured loans in an aggregate principal amount of up to \$4.1 billion. The loans will bear interest at a rate per annum equal to the Eurodollar Rate plus a margin based on the Company’s debt ratings from time to time of between 0.75% and 1.63%. Repayments of loans under the Bridge Credit Agreement are due no later than June 8, 2017. The Company may prepay loans under the Bridge Credit Agreement in whole or in part at any time, without premium or penalty, subject to reimbursement of certain costs in the case of borrowings that bear interest at the Eurodollar Rate. As a result of entering into the Bridge Credit Agreement, the Company incurred a funding fee equal to 0.15% of the aggregate principal amount of the loans funded under the Bridge Credit Agreement, or \$6.1 million, which was recorded in the second quarter of fiscal 2017 and is being amortized into interest expense over the term of the loan. Total fees incurred by the Company for the 90-day Bridge Commitment and Bridge Credit Agreement were approximately \$15.0 million. Subsequent to the close of the second quarter of fiscal 2017, the Company repaid all of the \$4.1 billion of outstanding loans under the Bridge Credit Agreement. See Note 18, *Subsequent Events*, of these Notes to Condensed Consolidated Financial Statements for further information.

On September 23, 2016, the Company entered into a term loan facility consisting of a 3-year unsecured term loan facility in the principal amount of \$2.5 billion and a 5-year unsecured term loan facility in the principal amount of \$2.5 billion established pursuant to a credit agreement with JP Morgan Chase Bank, N.A. as administrative agent and other banks identified therein as lenders (Term Loan Agreement). The Term Loan Agreement replaced \$5.0 billion of the 364-day Bridge Commitment. On the Acquisition Date, the Company borrowed under the Term Loan Agreement, consisting of a 3-year unsecured term loan in the principal amount of \$2.5 billion, due March 10, 2020 and a 5-year unsecured term loan in the principal amount of \$2.5 billion, due March 10, 2022. The 5-year term loan requires repayment in quarterly installments on the last business day of each March, June, September and December with the first required payment due June 2017. Prepayments of principal on the term loans can be made at anytime without penalty. The term loans will bear interest at a rate per annum equal to the Eurodollar Rate plus a margin based on the Company’s debt ratings from time to time of between 0.75% and 1.63% in the case of the 3-year term loan facility, and a margin of between 0.88% and 1.75% in the case of the 5-year term loan facility. As a result of entering into the Term Loan Agreement and drawing on the available borrowings, the Company incurred fees of approximately \$9.7 million. The Company recorded these costs in the second quarter of fiscal 2017 as deferred financing costs and will amortize them on a straight-line basis through interest expense over the expected 3- and 5-year terms of the term loan facility. The Company also paid ticking fees based on the Company’s debt rating accruing beginning 60 days following the effectiveness of the Term Loan Agreement through the Acquisition Date. Total fees incurred by the Company for the term loan facilities were approximately \$11.5 million. Subsequent to the close of the second quarter of fiscal 2017, the Company repaid \$100.0 million of principal on its 3-year unsecured term loan facility and repaid \$100.0 million of principal on its 5-year unsecured term loan facility. See Note 18, *Subsequent Events*, of these Notes to Condensed Consolidated Financial Statements for further information.

On December 5, 2016, the Company issued \$400.0 million aggregate principal amount of 2.5% senior unsecured notes due December 5, 2021 (the 2021 Notes), \$550.0 million aggregate principal amount of 3.125% senior unsecured notes due December 5, 2023 (the December 2023 Notes), \$900.0 million aggregate principal amount of 3.5% senior unsecured notes due December 5, 2026 (the 2026 Notes) and \$250.0 million aggregate principal amount of 4.5% senior unsecured notes due December 5, 2036 (the 2036 Notes, and together with the 2021 Notes, the December 2023 Notes and the 2026 Notes, the Notes) with semi-annual fixed interest payments due on June 5 and December 5 of each year, commencing June 5, 2017. The Notes were issued in an underwritten public offering pursuant to the terms of an underwriting agreement, dated as of November 30, 2016, among the Company and J.P. Morgan Securities LLC, Merrill Lynch, Pierce, Fenner & Smith Incorporated, Credit Suisse Securities (USA) LLC and MUFG Securities Americas Inc., as representatives of the several underwriters named therein. The net proceeds of the offering were \$2.1 billion, after discount and issuance costs. Debt discount and issuance costs will be amortized through interest expense over the term of the Notes. The Notes were issued pursuant to an indenture, as supplemented by a supplemental indenture, and the indenture and supplemental indenture contain certain covenants, events of default and other customary provisions. As of April 29, 2017, the Company was compliant with these covenants. The Notes

will rank without preference or priority among themselves and equally in right of payment with all other existing and future senior unsecured debt and senior in right of payment to all of the Company's future subordinated debt. The issuance of the Notes replaced the remaining \$2.5 billion of the 364-day Bridge Commitment.

The Company's debt consisted of the following as of April 29, 2017 and October 29, 2016:

| | April 29, 2017 | | October 29, 2016 | |
|-------------------------------|----------------|--|------------------|--|
| | Principal | Unamortized discount and debt issuance costs | Principal | Unamortized discount and debt issuance costs |
| 3-Year term loan | 2,400,000 | 3,970 | — | — |
| 5-Year term loan | 2,375,000 | 5,272 | — | — |
| 2021 Notes, due December 2021 | 400,000 | 4,211 | — | — |
| 2023 Notes, due June 2023 | 500,000 | 3,740 | 500,000 | 4,047 |
| 2023 Notes, due December 2023 | 550,000 | 5,831 | — | — |
| 2025 Notes, due December 2025 | 850,000 | 7,593 | 850,000 | 8,034 |
| 2026 Notes, due December 2026 | 900,000 | 12,292 | — | — |
| 2036 Notes, due December 2036 | 250,000 | 4,084 | — | — |
| 2045 Notes, due December 2045 | 400,000 | 5,643 | 400,000 | 5,742 |
| Total Long-Term Debt | \$ 8,625,000 | \$ 52,636 | \$ 1,750,000 | \$ 17,823 |
| Bridge credit agreement | 4,100,000 | 3,831 | — | — |
| 3-Year term loan, current | 100,000 | — | — | — |
| 5-Year term loan, current | 125,000 | — | — | — |
| Total Current Debt | \$ 4,325,000 | \$ 3,831 | \$ — | \$ — |
| Total Debt | \$ 12,950,000 | \$ 56,467 | \$ 1,750,000 | \$ 17,823 |

Note 14 – Inventories

Inventories are valued at the lower of cost (first-in, first-out method) or market. The valuation of inventory requires the Company to estimate obsolete or excess inventory as well as inventory that is not of saleable quality. The Company employs a variety of methodologies to determine the net realizable value of its inventory. While a portion of the calculation to record inventory at its net realizable value is based on the age of the inventory and lower of cost or market calculations, a key factor in estimating obsolete or excess inventory requires the Company to estimate the future demand for its products. If actual demand is less than the Company's estimates, impairment charges, which are recorded to cost of sales, may need to be recorded in future periods. Inventory in excess of saleable amounts is not valued, and the remaining inventory is valued at the lower of cost or market.

Inventories at April 29, 2017 and October 29, 2016 were as follows:

| | April 29, 2017 | October 29, 2016 |
|-------------------|----------------|------------------|
| Raw materials | \$ 30,557 | \$ 20,263 |
| Work in process | 448,296 | 232,196 |
| Finished goods | 169,005 | 124,096 |
| Total inventories | \$ 647,858 | \$ 376,555 |

Note 15 – Acquisitions

Linear Technology Corporation

On the Acquisition Date, the Company completed its acquisition of all of the voting interests of Linear, an independent manufacturer of high performance analog integrated circuits. Under the terms of the Merger Agreement, Linear stockholders, received, for each outstanding share of Linear common stock, \$46.00 in cash and 0.2321 of a share of the Company's common stock at the closing. The combination creates the premier analog technology company with the industry's most comprehensive suite of high-performance analog offerings. The results of operations of Linear from the Acquisition Date are included in the Company's consolidated statements of income for the three and six months ended April 29, 2017. The amount of revenue

attributable to Linear included in the Company's consolidated statements of income for the three and six months ended April 29, 2017 was \$147.5 million.

The Acquisition Date fair value of the consideration transferred in the Acquisition consisted of the following:

| | |
|---|----------------------|
| (in thousands) | |
| Cash consideration (a) | \$ 11,092,047 |
| Issuance of common stock (b) | 4,593,655 |
| Fair value of replacement share-based and cash awards (c) | 70,954 |
| Total estimated purchase consideration | <u>\$ 15,756,656</u> |

(a) The cash consideration was funded utilizing cash on hand, the net proceeds from the bridge and term loan agreements and the proceeds received from the Company's issuance of the Notes. This reflects the cash portion of the purchase consideration paid to Linear stockholders of approximately \$11.1 billion, as well as \$16.3 million for the cash-settled portion of consideration paid to holders of restricted stock and restricted stock awards that automatically vested at the effective time of the Acquisition pursuant to pre-existing change-of-control agreements.

(b) The fair value is based on the issuance of approximately 55.9 million shares of the Company's common stock with a per-share value of \$82.20 (the closing price of the Company's common stock on The NASDAQ Global Select Market on the Acquisition Date).

(c) In connection with the Acquisition, the Company issued equity and cash awards to certain Linear employees to replace Linear equity awards. The amount represents the portion of the fair value of the replacement equity and cash awards associated with services rendered through the Acquisition Date and have been included as a component of the total estimated purchase consideration.

The preliminary fair values of assets acquired and liabilities assumed as of the Acquisition Date is set forth in the table below. The excess of the purchase price over the aggregate fair value of identifiable net assets acquired was recorded as goodwill. None of the goodwill is expected to be deductible for tax purposes. These preliminary fair values were determined through established and generally accepted valuation techniques and are subject to change during the measurement period as valuations are finalized. As a result, the Acquisition accounting is not complete and additional information that existed at the Acquisition Date may become known to the Company during the remainder of the measurement period. As of the filing date of this Quarterly Report on Form 10-Q, the Company is still in the process of valuing Linear's assets, including inventory, fixed assets, deferred taxes, intangible assets, and liabilities, including deferred revenue.

| | |
|-----------------------------------|----------------------|
| (in thousands) | |
| Cash and cash equivalents | \$ 1,411,550 |
| Marketable securities | 100,246 |
| Accounts receivable (a) | 154,175 |
| Inventories | 437,907 |
| Prepaid expenses and other assets | 14,782 |
| Property, plant and equipment | 461,565 |
| Intangible assets (Note 10) | 5,140,400 |
| Goodwill (Note 10) | 10,584,333 |
| Total assets | <u>\$ 18,304,958</u> |
| Assumed liabilities | 138,452 |
| Deferred tax liabilities | 2,409,850 |
| Total estimated purchase price | <u>\$ 15,756,656</u> |

(a) The fair value of accounts receivable was \$154.2 million, with the gross contractual amount being \$155.9 million, of which the Company estimates that \$1.7 million is uncollectible.

The amortizable intangible assets acquired consisted of the following, which are being amortized on a straight-line basis over their estimated useful lives or on an accelerated method of amortization that is expected to reflect the estimated pattern of economic use.

| | Fair Value (in thousands) | Weighted Average Useful Lives (in Years) |
|-------------------------------------|------------------------------|--|
| Technology-based | \$ 1,046,100 | 8 |
| Trade name | 72,200 | 7 |
| Customer relationships | 4,022,100 | 11 |
| Total amortizable intangible assets | <u>\$ 5,140,400</u> | 10 |

The goodwill recognized is attributable to synergies which are expected to enhance and expand the Company's overall product portfolio and opportunities in new and existing markets, future technologies that have yet to be determined and Linear's assembled workforce. Future technologies do not meet the criteria for recognition separately from goodwill because they are part of future development and growth of the business. As of the filing date of this Quarterly Report on Form 10-Q, the assignment of goodwill resulting from the Acquisition to the Company's reporting units has not been completed.

There were no significant contingencies assumed as part of the Acquisition.

The Company recognized \$38.8 million and \$46.8 million of transaction-related costs, including legal, accounting and other related fees that were expensed in the three- and six-month periods ended April 29, 2017, respectively. These costs are included in the condensed consolidated statements of income in operating expenses within SMG&A expenses. The Company may incur additional transaction-related costs within the next twelve months related to the Acquisition that will be expensed as incurred.

The following unaudited pro forma consolidated financial information combines the unaudited results of the Company for the three and six months ended April 29, 2017 and the unaudited results of Linear for the three and six months ended January 28, 2017 and assumes that the Acquisition, which closed on March 10, 2017, was completed on November 1, 2015 (the first day of the Company's 2016 fiscal year). The pro forma consolidated financial information has been calculated after applying the Company's accounting policies and includes adjustments for amortization expense of acquired intangible assets, transaction-related costs, a step-up in the value of acquired inventory and property, plant and equipment, compensation expense for ongoing share-based compensation arrangements replaced and interest expense for the debt incurred to fund the Acquisition, together with the consequential tax effects. These pro forma results have been prepared for comparative purposes only and do not purport to be indicative of the operating results of the Company that would have been achieved had the Acquisition actually taken place on November 1, 2015. In addition, these results are not intended to be a projection of future results and do not reflect events that may occur after the Acquisition, including but not limited to revenue enhancements, cost savings or operating synergies that the combined Company may achieve as a result of the Acquisition.

(thousands, except per share data)

| | Pro Forma Three Months Ended | |
|-------------------------------------|------------------------------|----------------|
| | April 29, 2017 | April 30, 2016 |
| Revenue | \$ 1,366,946 | \$ 1,137,468 |
| Net income | \$ 119,134 | \$ 58,695 |
| Basic net income per common share | \$ 0.33 | \$ 0.16 |
| Diluted net income per common share | \$ 0.32 | \$ 0.16 |

(thousands, except per share data)

| | Pro Forma Six Months Ended | |
|-------------------------------------|----------------------------|----------------|
| | April 29, 2017 | April 30, 2016 |
| Revenue | \$ 2,729,393 | \$ 2,218,047 |
| Net income | \$ 351,625 | \$ (136,034) |
| Basic net income per common share | \$ 0.96 | \$ (0.37) |
| Diluted net income per common share | \$ 0.95 | \$ (0.37) |

Other Acquisitions

The Company has not provided pro forma results of operations for any other acquisitions completed in the three- or six-month periods ended April 29, 2017 or April 30, 2016 herein as they were not material to the Company on either an individual or

an aggregate basis. The Company included the results of operations of each acquisition in its consolidated statement of income from the date of each acquisition.

Note 16 – Income Taxes

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

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

The Company has filed a petition with the U.S. Tax Court for one open matter for fiscal years 2006 and 2007 that pertains to Section 965 of the Internal Revenue Code related to the beneficial tax treatment of dividends paid from foreign owned companies under The American Jobs Creation Act. A favorable ruling was rendered by the U.S. Tax Court on November 22, 2016. The Company recorded a \$36.5 million reserve for this potential liability in the fourth quarter of fiscal 2013 and has retained it as of April 29, 2017 since the ultimate outcome depends on whether the Internal Revenue Service (IRS) will appeal the U.S. Tax Court's decision.

All of the Company's U.S. federal tax returns prior to fiscal year 2013 are no longer subject to examination.

All of the Company's Ireland tax returns prior to fiscal year 2012 are no longer subject to examination.

Unrealized Tax Benefits

The following table summarizes the changes in the total amounts of unrealized tax benefits for the six months ended April 29, 2017.

| | Unrealized Tax Benefits |
|---|-------------------------|
| Balance, October 29, 2016 | \$ 68,535 |
| Additions related to acquisitions | 12,332 |
| Additions for tax positions related to current year | 288 |
| Reductions for tax positions related to prior years | (1,361) |
| Balance, April 29, 2017 | \$ 79,794 |

Note 17 – New Accounting Pronouncements

Standards Implemented

Business combinations

In September 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2015-16, *Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments* (ASU 2015-16). The update requires that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The update also requires that the acquirer record, in the financial statements of the period in which adjustments to provisional amounts are determined, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. The new standard is effective prospectively for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years, with early adoption permitted. The Company adopted ASU 2015-16 in the first quarter of fiscal 2017. The impact of the adoption will be dependent upon any future measurement period adjustments for acquisitions.

Intangibles-Goodwill and other

In April 2015, the FASB issued ASU 2015-05, *Intangibles - Goodwill and Other - Internal Use Software (Subtopic 350-40) - Customer's Accounting for Fees Paid in a Cloud Computing Arrangement* (ASU 2015-05), which provides guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. Consequently, all software licenses within the scope of Subtopic 350-40 will be accounted for consistent with other licenses of intangible assets. The guidance in ASU 2015-05 is effective for fiscal years beginning after December 15, 2015 and early adoption is permitted. The adoption of ASU 2015-05 in the first quarter of fiscal 2017 did not impact the Company's financial position or results of operations.

Compensation - Retirement Benefits

In April 2015, the FASB issued ASU 2015-04, *Practical Expedient for the Measurement Date of an Employer's Defined Benefit Obligation and Plan Assets* (ASU 2015-04), which provides a practical expedient for entities with a fiscal year-end that does not coincide with a month-end, that permits the entity to measure defined benefit plan assets and obligations using the month-end that is closest to the entity's fiscal year-end and apply that practical expedient consistently from year to year. Entities are required to disclose the accounting policy election and the date used to measure defined benefit plan assets and obligations. ASU 2015-04 is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2015. Early application is permitted. Amendments should be applied prospectively. The adoption of ASU 2015-04 in the first quarter of fiscal 2017 did not impact the Company's financial position or results of operations.

Consolidation

In February 2015, the FASB issued ASU 2015-02, *Amendments to the Consolidation Analysis* (ASU 2015-02). ASU 2015-02 affects reporting entities that are required to evaluate whether they should consolidate certain legal entities. ASU 2015-02 modifies the evaluation of whether limited partnerships and similar legal entities are variable interest entities (VIEs) or voting interest entities, eliminates the presumption that a general partner should consolidate a limited partnership and affects the consolidation analysis of reporting entities that are involved with VIEs, particularly those that have fee arrangements and related party relationships. ASU 2015-02 is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted. A reporting entity may apply the amendments in this guidance using a modified retrospective approach by recording a cumulative-effect adjustment to equity as of the beginning of the fiscal year of adoption. A reporting entity also may apply the amendments retrospectively. The adoption of ASU 2015-02 in the first quarter of fiscal 2017 did not impact the Company's financial position or results of operations.

Stock Compensation

In June 2014, the FASB issued ASU 2014-12, *Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period* (ASU 2014-12), which requires that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. ASU 2014-12 is effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. Early adoption is permitted. The adoption of ASU 2014-12 in the first quarter of fiscal 2017 did not impact the Company's financial position or results of operations.

Standards to Be Implemented

Intangibles - Goodwill and Other

In January 2017, the FASB issued ASU 2017-04, *Intangibles - Goodwill and Other (Topic 350)* (ASU 2017-04). ASU 2017-04 simplifies the subsequent measurement of goodwill by removing the second step of the two-step impairment test. The amendment requires an entity to perform its annual, or interim goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. A goodwill impairment will be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. The amendment should be applied on a prospective basis. ASU 2017-04 is effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. ASU 2017-04 is effective for the Company in the first quarter of the fiscal year ending October 30, 2021 (fiscal 2021). The Company is currently evaluating the adoption date and the impact, if any, adoption will have on its financial position and results of operations.

Business combinations

In January 2017, the FASB issued ASU 2017-01, *Business Combinations (Topic 805) Clarifying the Definition of a Business* (ASU 2017-01). ASU 2017-07 clarifies the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The

definition of a business affects many areas of accounting including acquisitions, disposals, goodwill, and consolidation. The guidance is effective for annual periods beginning after December 15, 2017, including interim periods within those periods. The Company will adopt ASU 2016-06 in the first quarter of the fiscal year ending November 2, 2019 (fiscal 2019). The impact of the adoption on the Company's financial position and results of operations will be dependent upon any future acquisitions or disposals.

Income Taxes

In October 2016, the FASB issued ASU 2016-16, *Income Taxes (Topic 740)* (ASU 2016-16). ASU 2016-16 will require an entity to recognize the income tax consequences of an intra-entity transfer of an asset, other than inventory, when the transfer occurs. ASU 2016-16 is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted as of the beginning of an annual reporting period for which financial statements have not been issued or made available for issuance. ASU 2016-16 is effective for the Company in the first quarter of fiscal 2019. The Company is currently evaluating the adoption date and the impact, if any, adoption will have on its financial position and results of operations.

Statement of Cash Flows

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments* (ASU 2016-15). ASU 2016-15 provides guidance on several specific cash flow issues, including debt prepayment or extinguishment costs, settlement of certain debt instruments, contingent consideration payments made after a business combination, proceeds from the settlement of certain insurance claims and distributions received from equity method investees. ASU 2016-15 is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted in any interim or annual period. ASU 2016-15 is effective for the Company in the first quarter of fiscal 2019. The Company is currently evaluating the adoption date and the impact, if any, adoption will have on its statement of cash flows.

Equity Method Investments

In March 2016, the FASB issued ASU 2016-07, *Investments - Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting* (ASU 2016-07). ASU 2016-07 eliminates the requirement that when an investment, initially accounted for under a method other than the equity method of accounting, subsequently qualifies for use of the equity method, an investor must retrospectively apply the equity method in prior periods in which it held the investment. This requires an investor to determine the fair value of the investee's underlying assets and liabilities retrospectively at each investment date and revise all prior periods as if the equity method had always been applied. The new guidance requires the investor to apply the equity method prospectively from the date the investment qualifies for the equity method. The investor will add the carrying value of the existing investment to the cost of the additional investment to determine the initial cost basis of the equity method investment. ASU 2016-07 is effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. Early adoption is permitted in any interim or annual period. ASU 2016-07 is effective for the Company in the first quarter of the fiscal year ending November 3, 2018 (fiscal 2018). The Company is currently evaluating the adoption date and the impact, if any, adoption will have on its financial position and results of operations.

Derivatives and Hedging

In March 2016, the FASB issued ASU 2016-06, *Derivatives and Hedging (Topic 815): Contingent Put and Call Options in Debt Instruments* (ASU 2016-06). ASU 2016-06 clarifies the requirements for assessing whether contingent call (put) options that can accelerate the payment of principal on debt instruments are clearly and closely related to their debt hosts. An entity performing the assessment under ASU 2016-06 is required to assess the embedded call (put) options solely in accordance with the four-step decision sequence. ASU 2016-06 is effective for annual periods beginning after December 15, 2017, and interim periods within those annual periods. ASU 2016-06 is effective for the Company in the first quarter of fiscal 2019. The Company is currently evaluating the adoption date and the impact, if any, adoption will have on its financial position and results of operations.

Leases

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)* (ASU 2016-02). ASU 2016-02 requires a lessee to recognize most leases on the balance sheet but recognize expenses on the income statement in a manner similar to current practice. The update states that a lessee will recognize a lease liability for the obligation to make lease payments and a right-to-use asset for the right to use the underlying assets for the lease term. Leases will continue to be classified as either financing or operating, with classification affecting the recognition, measurement and presentation of expenses and cash flows arising from a lease. ASU 2016-02 is effective for financial statements issued for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. ASU 2016-02 is effective for the Company in the first quarter of the fiscal year ending October 31, 2020 (fiscal 2020). The Company is currently evaluating the adoption date and the impact adoption will have on its financial position and results of operations.

Financial Instruments

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments* (ASU 2016-13). ASU 2016-13 requires a financial asset (or group of financial assets) measured at amortized cost basis to be presented at the net amount expected to be collected. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of the financial asset(s) to present the net carrying value at the amount expected to be collected on the financial asset. ASU 2016-13 is effective for fiscal years beginning after December 15, 2019, and for interim periods within those fiscal years. ASU 2016-13 is effective for the Company in the first quarter of fiscal 2020. The Company is currently evaluating the adoption date and the impact, if any, adoption will have on its financial position and results of operations.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities* (ASU 2016-01). ASU 2016-01 requires equity investments to be measured at fair value with changes in fair value recognized in net income; simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment; eliminates the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet; requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments; requires separate presentation of financial assets and financial liabilities by measurement category and form of financial assets on the balance sheet or the accompanying notes to the financial statements and clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity's other deferred tax assets. ASU 2016-01 is effective for financial statements issued for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. ASU 2016-01 is effective for the Company in the first quarter of fiscal 2019. The Company is currently evaluating the adoption date and the impact adoption will have on its financial position and results of operations.

Inventory

In July 2015, the FASB issued ASU 2015-11, *Inventory (Topic 330) - Simplifying the Measurement of Inventory* (ASU 2015-11), which simplifies the subsequent measurement of inventories by replacing the lower of cost or market test with a lower of cost and net realizable value test. The guidance applies only to inventories for which cost is determined by methods other than last-in first-out (LIFO) and the retail inventory method. The guidance in ASU 2015-11 is effective for fiscal years beginning after December 15, 2016 and early adoption is permitted. ASU 2015-11 is effective for the Company in the first quarter of fiscal 2018. The Company is currently evaluating the adoption date and the impact, if any, adoption will have on its financial position and results of operations.

Presentation of Financial Statements

In August 2014, the FASB issued ASU 2014-15, *Presentation of Financial Statements - Going Concern (Subtopic 205-40)* (ASU 2014-15), which provides guidance about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. The update requires management to assess an entity's ability to continue as a going concern by incorporating and expanding upon certain principles that are currently in U.S. auditing standards. Specifically, the update (1) provides a definition of the term "substantial doubt", (2) requires an evaluation every reporting period including interim periods, (3) provides principles for considering the mitigating effect of management's plans, (4) requires certain disclosures when substantial doubt is alleviated as a result of consideration of management's plans, (5) requires an express statement and other disclosures when substantial doubt is not alleviated, and (6) requires an assessment for a period of one year after the date that the financial statements are issued (or available to be issued). ASU 2014-15 is effective for annual reporting periods ending after December 15, 2016, and for annual periods and interim periods thereafter. Early adoption is permitted. ASU 2014-15 is effective for the Company for its annual period ending October 28, 2017. The Company does not expect the adoption to have a material impact on the Company's consolidated financial statements.

Stock Compensation

In March 2016, the FASB issued ASU 2016-09, *Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting* (ASU 2016-09). ASU 2016-09 simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. ASU 2016-09 is effective for fiscal years, and interim periods within those annual periods, beginning after December 15, 2016 and allows for prospective, retrospective or modified retrospective adoption, depending on the area covered in the update, with early adoption permitted. ASU 2016-09 is effective

for the Company in the first quarter of fiscal 2018. The Company is currently evaluating the adoption date and the impact, if any, adoption will have on its financial position and results of operations.

Revenue Recognition

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (ASU 2014-09), which supersedes nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Additionally, the guidance requires improved disclosures to help users of financial statements better understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The FASB has issued several amendments and updates to the new revenue standard, including guidance related to when an entity should recognize revenue gross as a principal or net as an agent and how an entity should identify performance obligations. As amended, ASU 2014-09 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017, which is the Company's first quarter of fiscal 2019. Early adoption is permitted for all entities only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. The Company has developed a project plan for the implementation of the guidance including a review of all revenue streams to identify any differences in the timing, measurement or presentation of revenue recognition. The Company has reviewed a majority of its revenue streams and continues to make progress in assessing all potential impacts of the standard, including any impacts from recently issued amendments. The Company has also started its assessment to determine the revenue recognition impact of the recent acquisition of Linear. While the Company is still in the process of completing its evaluation of the standard, it currently believes the most significant impact will be related to the timing of recognition of sales to certain distributors. As described in Note 2, *Revenue Recognition*, of these Notes to the Condensed Consolidated Financial Statements, the Company currently defers revenue and the related cost of sales on shipments to certain distributors until the distributors resell the products to their customers. Upon adoption of ASU 2014-09, the Company will no longer be permitted to defer revenue until sale by the distributor to the end customer, but rather, will be required to estimate the effects of returns and allowances provided to distributors and record revenue at the time of sale to the distributor. The Company is continuing to evaluate the future impact and method of adoption of ASU 2014-09 and related amendments on its consolidated financial statements and related disclosures. The Company is considering early adoption of the new standard using the full retrospective method in the fiscal year ending November 3, 2018. While the Company has made significant progress on its project plan, the Company's ability to early adopt using the full retrospective method is dependent on system readiness and the completion of its analysis of information necessary to restate prior period financial statements.

Note 18 – Subsequent Events

On May 10, 2017, the Company repaid \$100.0 million of principal on its 3-year unsecured term loan facility and repaid \$100.0 million of principal on its 5-year unsecured term loan facility, as such this amount was classified as current in the condensed consolidated balance sheet as of April 29, 2017.

On May 19, 2017, the Company repaid all of the \$4.1 billion of outstanding loans under the Bridge Credit Agreement.

The Company had filed a petition with the U.S. Tax Court for one open matter for fiscal 2006 and fiscal 2007 that pertains to Section 965 of the Internal Revenue Code related to the beneficial tax treatment of dividends paid from foreign owned companies under The American Jobs Creation Act. A favorable ruling was rendered by the U.S. Tax Court on November 22, 2016. On February 27, 2017, the Tax Court's Decision Order was entered. The 90-day period for the IRS to file a Notice of Appeal lapsed on May 30, 2017. As a result, on May 30, 2017, the Company has released the \$45.3 million reserve, which was comprised of the \$36.5 million reserve originally recorded for this potential liability plus \$8.8 million of interest.

On May 30, 2017, the Board of Directors of the Company declared a cash dividend of \$0.45 per outstanding share of common stock. The dividend will be paid on June 20, 2017 to all shareholders of record at the close of business on June 9, 2017.

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

This information should be read in conjunction with the unaudited condensed consolidated financial statements and related notes included in Part I, Item 1 of this Quarterly Report on Form 10-Q and the audited consolidated financial statements and related notes and Management's Discussion and Analysis of Financial Condition and Results of Operations contained in our Annual Report on Form 10-K for the fiscal year ended October 29, 2016.

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

Results of Operations

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

Overview

| | Three Months Ended | | | |
|------------------------------|--------------------|----------------|-------------|----------|
| | April 29, 2017 | April 30, 2016 | \$ Change | % Change |
| Revenue | \$ 1,147,982 | \$ 778,766 | \$ 369,216 | 47 % |
| Gross margin % | 55.8% | 65.6% | | |
| Net income | \$ 93,564 | \$ 170,573 | \$ (77,009) | (45)% |
| Net income as a % of revenue | 8.2% | 21.9% | | |
| Diluted EPS | \$ 0.27 | \$ 0.55 | \$ (0.28) | (51)% |

| | Six Months Ended | | | |
|------------------------------|------------------|----------------|-------------|----------|
| | April 29, 2017 | April 30, 2016 | \$ Change | % Change |
| Revenue | \$ 2,132,431 | \$ 1,548,195 | \$ 584,236 | 38 % |
| Gross margin % | 60.4% | 63.8% | | |
| Net income | \$ 310,693 | \$ 335,077 | \$ (24,384) | (7)% |
| Net income as a % of revenue | 14.6% | 21.6% | | |
| Diluted EPS | \$ 0.94 | \$ 1.07 | \$ (0.13) | (12)% |

Acquisition of Linear Technology Corporation

On March 10, 2017 (Acquisition Date), we completed the acquisition of Linear Technology Corporation (Linear), a designer, manufacturer and marketer of high performance analog integrated circuits. The total consideration paid to acquire Linear was approximately \$15.8 billion, consisting of \$11.1 billion in cash financed through existing cash on hand, net proceeds from bridge and term loan facilities and proceeds received from the issuance of senior unsecured notes, \$4.6 billion from the issuance of our common stock and \$0.1 billion of consideration related to the replacement of outstanding equity awards held by Linear employees. The acquisition of Linear is referred to as the Acquisition. The condensed consolidated financial statements included in this

Quarterly Report on Form 10-Q include the financial results of Linear prospectively from the Acquisition Date. See Note 13, *Debt* and Note 15, *Acquisitions*, in the Notes to Condensed Consolidated Financial Statements contained in Part I, Item 1 of this Quarterly Report on Form 10-Q for further information.

Revenue Trends by End Market

The following table summarizes revenue by end market. The categorization of revenue by end market is determined using a variety of data points including the technical characteristics of the product, the “sold to” customer information, the “ship to” customer information and the end customer product or application into which our product will be incorporated. As data systems for capturing and tracking this data evolve and improve, the categorization of products by end market can vary over time. When this occurs, we reclassify revenue by end market for prior periods. Such reclassifications typically do not materially change the sizing of, or the underlying trends of results within, each end market. We are in the process of integrating Linear's results into our systems and end market classifications. As a result, revenues of Linear from the Acquisition Date are presented separately in the table below.

| | Three Months Ended | | | | |
|---|---------------------|---------------|------------|-------------------|---------------|
| | April 29, 2017 | | | April 30, 2016 | |
| | Revenue | % of Revenue* | Y/Y% | Revenue | % of Revenue* |
| Industrial | \$ 462,913 | 46 % | 20 % | \$ 384,706 | 49 % |
| Automotive | 150,418 | 15 % | 9 % | 138,398 | 18 % |
| Consumer | 205,444 | 21 % | 156 % | 80,385 | 10 % |
| Communications | 181,744 | 18 % | 4 % | 175,277 | 23 % |
| Total revenue (excluding Linear revenue) | \$ 1,000,519 | 100% | 28% | \$ 778,766 | 100% |
| Linear revenue | 147,463 | | | — | |
| Total revenue | \$ 1,147,982 | | 47% | \$ 778,766 | |

* Percentages are based on total revenue (excluding Linear revenue). The sum of the individual percentages may not equal the total due to rounding.

| | Six Months Ended | | | | |
|---|---------------------|---------------|-------------|---------------------|---------------|
| | April 29, 2017 | | | April 30, 2016 | |
| | Revenue | % of Revenue* | Y/Y% | Revenue | % of Revenue* |
| Industrial | \$ 865,499 | 44 % | 18 % | \$ 733,635 | 47 % |
| Automotive | 289,182 | 15 % | 9 % | 265,046 | 17 % |
| Consumer | 475,590 | 24 % | 130 % | 207,143 | 13 % |
| Communications | 354,697 | 18 % | 4 % | 342,371 | 22 % |
| Total revenue (excluding Linear revenue) | \$ 1,984,968 | 100% | 28 % | \$ 1,548,195 | 100% |
| Linear revenue | 147,463 | | | — | |
| Total revenue | \$ 2,132,431 | | 38% | \$ 1,548,195 | |

* Percentages are based on total revenue (excluding Linear revenue). The sum of the individual percentages may not equal the total due to rounding.

Industrial end market revenue increased in the three- and six-month periods ended April 29, 2017, as compared to the same periods of the prior fiscal year, primarily as a result of a broad increase in demand in this end market, with particular strength in the instrumentation and automation sectors. Automotive end market revenue increased in the three- and six-month periods ended April 29, 2017, as compared to the same periods of the prior fiscal year, primarily as a result of a broad-based increase in demand for our products. Consumer end market revenue increased in the three- and six-month periods ended April 29, 2017, as compared to the same periods of the prior fiscal year, primarily as a result of an increased demand for products used in portable consumer applications. Communications end market revenue increased in the three- and six-month periods ended April 29, 2017, as compared to the same periods of the prior fiscal year, primarily as a result of increased demand for products sold into wireline infrastructure applications.

Revenue Trends by Geographic Region

Revenue by geographic region, based upon the primary end customer location, for the three- and six-month periods ended April 29, 2017 and April 30, 2016 were as follows:

| <u>Region</u> | Three Months Ended | | | |
|---------------------------------|---------------------|-------------------|-------------------|------------|
| | April 29, 2017 | April 30, 2016 | \$ Change | % Change |
| United States | \$ 422,328 | \$ 245,283 | \$ 177,045 | 72 % |
| Rest of North and South America | 27,630 | 21,423 | 6,207 | 29 % |
| Europe | 293,178 | 245,160 | 48,018 | 20 % |
| Japan | 96,289 | 69,963 | 26,326 | 38 % |
| China | 198,209 | 140,940 | 57,269 | 41 % |
| Rest of Asia | 110,348 | 55,997 | 54,351 | 97 % |
| Total revenue | \$ 1,147,982 | \$ 778,766 | \$ 369,216 | 47% |

| <u>Region</u> | Six Months Ended | | | |
|---------------------------------|---------------------|---------------------|-------------------|------------|
| | April 29, 2017 | April 30, 2016 | \$ Change | % Change |
| United States | \$ 853,326 | \$ 511,952 | \$ 341,374 | 67 % |
| Rest of North and South America | 50,587 | 42,135 | 8,452 | 20 % |
| Europe | 519,513 | 461,876 | 57,637 | 12 % |
| Japan | 185,180 | 140,185 | 44,995 | 32 % |
| China | 351,192 | 279,663 | 71,529 | 26 % |
| Rest of Asia | 172,633 | 112,384 | 60,249 | 54 % |
| Total revenue | \$ 2,132,431 | \$ 1,548,195 | \$ 584,236 | 38% |

In the three- and six-month periods ended April 29, 2017 and April 30, 2016, the predominant country comprising “Rest of North and South America” is Canada; the predominant countries comprising “Europe” are Germany, Sweden, France and the United Kingdom; and the predominant countries comprising “Rest of Asia” are South Korea and Taiwan.

On a regional basis, the sales increase in the United States in the three- and six-month periods ended April 29, 2017, as compared to the same periods of the prior fiscal year, was primarily a result of an increase in demand of our products sold into the consumer end market and as a result of the Acquisition. The sales increase in Europe in the three- and six-month periods ended April 29, 2017, as compared to the same periods of the prior fiscal year, was primarily a result of the Acquisition and an increase in demand of our products sold into the industrial and automotive end markets partially offset by a decrease in demand in products sold into the communications end market. The sales increase in Japan in the three- and six-month periods ended April 29, 2017, as compared to the same periods of the prior fiscal year, was primarily a result of an increase in demand of our products sold into the industrial and consumer end markets. The sales increase in China in the three- and six month periods ended April 29, 2017, as compared to the same periods of the prior fiscal year, was primarily a result of the Acquisition and an increase in demand of our products sold into the industrial and automotive end markets. The sales increase in the Rest of Asia in the three- and six-month periods ended April 29, 2017, as compared to the same periods of the prior fiscal year, was primarily a result of the Acquisition and an increase in demand of our products sold into the industrial and communication end markets.

Gross Margin

| | Three Months Ended | | | | Six Months Ended | | | |
|----------------|--------------------|----------------|------------|----------|------------------|----------------|-----------|----------|
| | April 29, 2017 | April 30, 2016 | \$ Change | % Change | April 29, 2017 | April 30, 2016 | \$ Change | % Change |
| Gross margin | \$ 640,443 | \$ 510,903 | \$ 129,540 | 25% | \$1,288,947 | \$ 988,196 | \$300,751 | 30% |
| Gross margin % | 55.8% | 65.6% | | | 60.4% | 63.8% | | |

Gross margin percentage decreased by 980 basis points and 340 basis points in the three- and six-month periods ended April 29, 2017, as compared to the same periods of the prior fiscal year, primarily as a result of recording additional cost related to Acquisition accounting adjustments, including \$121.1 million related to the sale of acquired inventory written up to fair value, \$17.6 million related to amortization of developed technology intangible assets acquired, and \$8.3 million of depreciation related to the write up of fixed assets to fair value. The increases in cost of sales as a result of Acquisition accounting adjustments were partially offset by a decrease in factory variances as a result of increased utilization at our manufacturing facilities and lower inventory reserves.

Research and Development (R&D)

| | Three Months Ended | | | | Six Months Ended | | | |
|--------------------------------|--------------------|----------------|-----------|----------|------------------|----------------|------------|----------|
| | April 29, 2017 | April 30, 2016 | \$ Change | % Change | April 29, 2017 | April 30, 2016 | \$ Change | % Change |
| R&D expenses | \$ 235,232 | \$ 160,235 | \$ 74,997 | 47% | \$ 419,186 | \$ 317,663 | \$ 101,523 | 32% |
| R&D expenses as a % of revenue | 20.5% | 20.6% | | | 19.7% | 20.5% | | |

R&D expenses increased in the three- and six-month periods ended April 29, 2017, as compared to the same periods of the prior fiscal year. Approximately \$43.5 million of the overall increase in each period was a result of the Acquisition. The remainder of the increase in each period was primarily the result of increases in variable compensation expense linked to our overall profitability and revenue growth and R&D employee and related benefit expenses.

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

Selling, Marketing, General and Administrative (SMG&A)

| | Three Months Ended | | | | Six Months Ended | | | |
|----------------------------------|--------------------|----------------|-----------|----------|------------------|----------------|------------|----------|
| | April 29, 2017 | April 30, 2016 | \$ Change | % Change | April 29, 2017 | April 30, 2016 | \$ Change | % Change |
| SMG&A expenses | \$ 190,686 | \$ 112,186 | \$ 78,500 | 70% | \$ 321,345 | \$ 219,648 | \$ 101,697 | 46% |
| SMG&A expenses as a % of revenue | 16.6% | 14.4% | | | 15.1% | 14.2% | | |

SMG&A expenses increased in the three- and six-month periods ended April 29, 2017, as compared to the same periods of the prior fiscal year primarily as a result of the Acquisition. Approximately \$38.3 million and \$46.2 million of the increase in the three- and six-month periods ended April 29, 2017, respectively, was the result of an increase in acquisition-related costs, including legal, accounting and other related fees, resulting from the Acquisition and approximately \$25.7 million of the increase in each period was a result of the Acquisition. The remainder of the increase in each period was a result of increases in variable compensation expense linked to our overall profitability and revenue growth and SMG&A employee and related benefit expenses.

Amortization of Intangibles

| | Three Months Ended | | | | Six Months Ended | | | |
|---|--------------------|----------------|-----------|----------|------------------|----------------|-----------|----------|
| | April 29, 2017 | April 30, 2016 | \$ Change | % Change | April 29, 2017 | April 30, 2016 | \$ Change | % Change |
| Amortization expenses | \$ 68,690 | \$ 17,419 | \$ 51,271 | 294% | \$ 86,850 | \$ 34,777 | \$ 52,073 | 150% |
| Amortization expenses as a % of revenue | 6.0% | 2.2% | | | 4.1% | 2.2% | | |

Amortization expenses increased in the three- and six-month periods ended April 29, 2017, as compared to the same periods of the prior fiscal year, as a result of the purchase of intangible assets as part of the Acquisition and, to a lesser extent, other acquisitions completed in the fiscal year ended October 29, 2016 (fiscal 2016) and the fiscal year ended October 28, 2017 (fiscal 2017).

Special Charges

Early Retirement Offer Action

During the first quarter of fiscal 2017, we initiated an early retirement offer. This resulted in a special charge of approximately \$41.3 million for severance, related benefits, and other costs in accordance with this program for 225 manufacturing, engineering and SMG&A employees. As of April 29, 2017, we still employed 196 of the 225 employees included in this cost reduction action. These employees must continue to be employed by the Company until their employment

is terminated in order to receive the severance benefits. We expect this action will result in estimated annual salary, variable compensation and employee benefit savings of approximately \$28.4 million once fully implemented.

Reduction of Operating Costs Action

During the first quarter of fiscal 2017, we recorded special charges of approximately \$8.1 million for severance and fringe benefit costs in accordance with our ongoing benefit plan or statutory requirements at foreign locations for 177 manufacturing, engineering and SMG&A employees. As of April 29, 2017, we still employed 163 of the 177 employees included in this cost reduction action. These employees must continue to be employed by us until their employment is terminated in order to receive the severance benefits. We expect this action will result in estimated annual salary, variable compensation and employee benefit savings of approximately \$5.0 million once fully implemented.

Operating Income

| | Three Months Ended | | | | Six Months Ended | | | |
|------------------------------------|--------------------|----------------|-------------|----------|------------------|----------------|-----------|----------|
| | April 29, 2017 | April 30, 2016 | \$ Change | % Change | April 29, 2017 | April 30, 2016 | \$ Change | % Change |
| Operating income | \$ 145,835 | \$ 207,379 | \$ (61,544) | (30)% | \$ 412,103 | \$ 402,424 | \$ 9,679 | 2% |
| Operating income as a % of revenue | 12.7% | 26.6% | | | 19.3% | 26.0% | | |

The year-over-year decrease in operating income in the three-month period ended April 29, 2017 was primarily the result of a \$75.0 million increase in R&D expenses, a \$78.5 million increase in SMG&A expenses and a \$51.3 million increase in amortization expenses as more fully described above under the headings *Special Charges*, *Research and Development (R&D)*, *Selling, Marketing, General and Administrative (SMG&A)* and *Amortization of Intangibles*. These increases were partially offset by a \$129.5 million increase in gross margin and a \$13.7 million decrease in special charges.

The year-over-year increase in operating income in the six-month period ended April 29, 2017 was primarily the result of a \$300.8 million increase in gross margin, partially offset by a \$101.5 million increase in R&D expenses, a \$101.7 million increase in SMG&A expenses, a \$52.1 million increase in amortization expenses and a \$35.8 million increase in special charges as more fully described above under the headings *Special Charges*, *Research and Development (R&D)*, *Selling, Marketing, General and Administrative (SMG&A)* and *Amortization of Intangibles*.

Nonoperating Expense (Income)

| | Three Months Ended | | | Six Months Ended | | |
|----------------------------|--------------------|----------------|-----------|------------------|----------------|-----------|
| | April 29, 2017 | April 30, 2016 | \$ Change | April 29, 2017 | April 30, 2016 | \$ Change |
| Interest expense | \$ 71,636 | \$ 18,455 | \$ 53,181 | \$ 114,250 | \$ 31,517 | \$ 82,733 |
| Interest income | (12,421) | (5,243) | (7,178) | (22,421) | (8,442) | (13,979) |
| Other, net | (94) | (743) | 649 | 251 | 2,262 | (2,011) |
| Total nonoperating expense | \$ 59,121 | \$ 12,469 | \$ 46,652 | \$ 92,080 | \$ 25,337 | \$ 66,743 |

The year-over-year increase in nonoperating expense in the three- and six-month periods ended April 29, 2017 was primarily the result of an increase in interest expense as a result of the issuance of \$2.1 billion of senior unsecured notes in the first quarter of fiscal 2017 and \$1.3 billion of senior unsecured notes in the first quarter of fiscal 2016 and as a result of fees paid and financing commitments entered into in connection with the Acquisition, including a 90-day Bridge Credit Agreement in the principal amount of \$4.1 billion, a 3-year unsecured term loan in the principal amount of \$2.5 billion and a 5-year unsecured term loan in the principal amount of \$2.5 billion. See Note 13, *Debt*, of the Notes to our Condensed Consolidated Financial Statements contained in Part I, Item 1 of this Quarterly Report on Form 10-Q for further information on the debt issuances and commitments related to the Acquisition. The increase in nonoperating expense as a result of the increase in interest expense in the three- and six-month periods ended April 29, 2017, as compared to the same periods of the prior fiscal year, was partially offset by an increase in interest income due to higher cash balances and higher interest rates earned on our investments in the three- and six-month periods ended April 29, 2017 as compared to the same periods of the prior fiscal year.

(Benefit) Provision for Income Taxes

| | Three Months Ended | | | Six Months Ended | | |
|--------------------------------------|--------------------|----------------|-------------|------------------|----------------|-------------|
| | April 29, 2017 | April 30, 2016 | \$ Change | April 29, 2017 | April 30, 2016 | \$ Change |
| (Benefit) provision for income taxes | \$ (6,850) | \$ 24,337 | \$ (31,187) | \$ 9,330 | \$ 42,010 | \$ (32,680) |
| Effective income tax rate | (7.9)% | 12.5% | | 2.9% | 11.1% | |

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

The tax rate for all periods presented was below the U.S. federal statutory tax rate of 35%, primarily due to lower statutory tax rates applicable to our operations in the foreign jurisdictions in which we earn income. Non-U.S. jurisdictions accounted for approximately 78.4% of our total revenues for the six-month period ended April 29, 2017, compared to approximately 75.8% of our total revenues for the six-month period ended April 30, 2016, resulting in a material portion of our pretax income being earned and taxed outside the U.S., primarily in Bermuda and Ireland, at rates ranging from 0% to 35%. The impact on our provision for income taxes of income earned in foreign jurisdictions being taxed at rates different than the U.S. statutory rate was a benefit of approximately \$182.6 million and a foreign effective tax rate of approximately 5.8% in the three-month period ended April 29, 2017, compared to a benefit of approximately \$49.7 million and a foreign effective tax rate of approximately 6.0% in the three-month period ended April 30, 2016. The impact on our provision for income taxes of income earned in foreign jurisdictions being taxed at rates different than the U.S. statutory rate was a benefit of approximately \$266.7 million and a foreign effective tax rate of approximately 5.1% for the six-month period ended April 29, 2017, compared to a benefit of approximately \$103.1 million and a foreign effective tax rate of approximately 6.2% for the six-month period ended April 30, 2016. A reduction in the ratio of domestic taxable income to worldwide taxable income effectively lowers the overall tax rate, due to the fact that the tax rates in the majority of foreign jurisdictions where we earn income are significantly lower than the U.S. statutory rate. In addition, our effective income tax rate can be impacted each year by discrete factors or events. Our effective tax rate for the three- and six-month periods ended April 29, 2017 included a tax benefit of \$15.0 million for the release of a state tax credit valuation allowance as a result of the Acquisition. Our effective tax rate for the three-month period ended April 30, 2016 included no material discrete items. Our effective tax rate for the six-month period ended April 30, 2016 included a tax benefit of \$7.5 million from the reinstatement of the U.S. federal research and development tax credit in December 2015 retroactive to January 1, 2015.

Net Income

| | Three Months Ended | | | | Six Months Ended | | | |
|------------------------------|--------------------|----------------|-------------|----------|------------------|----------------|-------------|----------|
| | April 29, 2017 | April 30, 2016 | \$ Change | % Change | April 29, 2017 | April 30, 2016 | \$ Change | % Change |
| Net Income | \$ 93,564 | \$ 170,573 | \$ (77,009) | (45)% | \$ 310,693 | \$ 335,077 | \$ (24,384) | (7)% |
| Net Income as a % of revenue | 8.2% | 21.9% | | | 14.6% | 21.6% | | |
| Diluted EPS | \$ 0.27 | \$ 0.55 | | | \$0.94 | \$1.07 | | |

Net income decreased in the three-month period ended April 29, 2017, as compared to the same period of the prior fiscal year, as a result of a \$61.5 million decrease in operating income and a \$46.7 million increase in nonoperating expense, partially offset by a \$31.2 million decrease in provision for income taxes.

Net income decreased in the six-month period ended April 29, 2017, as compared to the same period of the prior fiscal year, as a result of a \$66.7 million increase in nonoperating expense, partially offset by a \$9.7 million increase in operating income and \$32.7 million decrease in provision for income taxes.

Liquidity and Capital Resources

At April 29, 2017, our principal source of liquidity was \$6.2 billion of cash and cash equivalents and short-term investments, of which approximately \$746.7 million was held in the United States. The balance of our cash and cash equivalents and short-term investments was held outside the United States in various foreign subsidiaries. As we intend to reinvest substantially all of our foreign earnings indefinitely, this cash held outside the United States is not available to meet certain aspects of our cash requirements in the United States, including cash dividends, principal and interest payments, and common stock repurchases. If these funds are needed for U.S. operations or can no longer be permanently reinvested outside the United States, we would be required to accrue and pay U.S. taxes to repatriate these funds. Our cash and cash equivalents consist of highly liquid investments with maturities of three months or less at the time of acquisition, including money market funds, and our short-term investments consist primarily of corporate obligations, such as commercial paper and floating rate

notes, bonds and bank time deposits. We maintain these balances with high credit quality counterparties, continually monitor the amount of credit exposure to any one issuer and diversify our investments in order to minimize our credit risk. In connection with accounting for the Acquisition, we recorded approximately \$1.4 billion of cash and marketable securities from Linear, which will be remitted from foreign jurisdictions as part of our post-Acquisition integration. Also as part of the post-Acquisition integration, we anticipate remitting legacy cash held outside of the United States of approximately \$3.6 billion which we expect will result in approximately \$0.1 billion in net tax expense to be recorded in the third quarter of fiscal 2017. We currently intend to use significant amounts of our remaining cash and cash equivalents held outside of the United States to finance obligations and current operations of our foreign businesses.

On the Acquisition Date, we entered into a 90-day Bridge Credit Agreement that provides for unsecured loans in an aggregate principal amount of up to \$4.1 billion and borrowed under a term loan agreement consisting of a 3-year unsecured term loan in the principal amount of \$2.5 billion, due March 10, 2020 and a 5-year unsecured term loan in the principal amount of \$2.5 billion, due March 10, 2022. In addition, we amended and restated our existing revolving credit facility to allow for the increase in the amount of commitments from \$750.0 million to \$1.0 billion at the closing of the Acquisition. See Note 12, *Revolving Credit Facility* and Note 13, *Debt*, of the Notes to our Condensed Consolidated Financial Statements contained in Part I, Item 1 of this Quarterly Report on Form 10-Q for further information. Subsequent to the close of the second quarter of fiscal 2017, on May 10, 2017, we repaid \$100.0 million of principal on the 3-year unsecured term loan facility and repaid \$100.0 million of principal on the 5-year unsecured term loan facility, and on May 19, 2017, we repaid all of the \$4.1 billion of outstanding loans under the Bridge Credit Agreement.

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

| | Six Months Ended | |
|---|------------------|----------------|
| | April 29, 2017 | April 30, 2016 |
| Net cash provided by operating activities | \$ 835,956 | \$ 539,908 |
| Net cash provided by operations as a % of revenue | 39.2% | 34.9% |
| Net cash used for investing activities | \$ (7,031,049) | \$ (549,577) |
| Net cash provided by financing activities | \$ 10,971,676 | \$ 245,112 |

At April 29, 2017, cash and cash equivalents totaled \$5.7 billion. The following changes contributed to the net increase in cash and cash equivalents in the six-month period ended April 29, 2017 as compared to the same period in fiscal 2016.

Operating Activities

Cash provided by operating activities is net income adjusted for certain non-cash items and changes in assets and liabilities.

The increase in cash provided by operating activities during the six-month period ended April 29, 2017, as compared to the same period of the prior fiscal year, was primarily due to changes in working capital and higher net income adjusted for non-cash items. Changes in working capital included an increase in accrued liabilities more fully described below under the heading *Working Capital*.

Investing Activities

Investing cash flows consist primarily of capital expenditures, investment purchases, maturities and sales of available-for-sale securities, as well as cash used for acquisitions.

The increase in cash used by investing activities during the six-month period ended April 29, 2017, as compared to the same period of the prior fiscal year, was primarily the result of cash payments made for the Acquisition, partially offset by an increase in net proceeds received from the sale and maturity of available-for-sale securities.

Financing Activities

Financing cash flows consist primarily of payments of dividends to stockholders, repurchases of common stock, issuance and repayment of long-term debt, and proceeds from the sale of shares of common stock pursuant to employee equity incentive plans.

The increase in cash provided by financing activities during the six-month period ended April 29, 2017, as compared to the same period of the prior fiscal year, was primarily due to an increase in net proceeds of \$9.9 billion received from the issuance of senior unsecured notes, financing commitments entered into in connection with the Acquisition, consisting of a 90-day Bridge Credit Agreement and a term loan agreement, a decrease in payments of \$378.2 million related to the redemption of our senior unsecured notes in fiscal 2016, and a decrease in stock repurchases of \$318.6 million due to the temporary suspension of our share repurchase program in connection with the Acquisition.

Working Capital

| | April 29, 2017 | October 29, 2016 | \$ Change | % Change |
|----------------------------------|----------------|------------------|------------|----------|
| Accounts receivable, net | \$ 630,353 | \$ 477,609 | \$ 152,744 | 32% |
| Days sales outstanding* | 45 | 42 | | |
| Inventory | \$ 647,858 | \$ 376,555 | \$ 271,303 | 72% |
| Days cost of sales in inventory* | 102 | 104 | | |

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

The increase in accounts receivable in dollars and days was primarily the result of the Acquisition.

The increase in inventory in dollars was primarily the result of the Acquisition. Days cost of sales in inventory decreased primarily as a result of the Acquisition.

Current liabilities increased to \$5.4 billion at April 29, 2017 from \$782.9 million at the end of fiscal 2016. The increase was primarily the result of \$4.3 billion of current debt as a result of the Acquisition and an increase in accrued liabilities due to increases in accrued variable compensation, accrued special charges and an increase in other accruals as a result of the Acquisition.

As of April 29, 2017 and October 29, 2016, we had gross deferred revenue of \$527.7 million and \$432.3 million, respectively, and gross deferred cost of sales of \$149.9 million and \$80.8 million, respectively. Deferred income on shipments to distributors increased in the first six months of fiscal 2017, primarily as a result of higher demand for products sold into the channel. Sales to distributors are made under agreements that allow distributors to receive price-adjustment credits and to return qualifying products for credit, as determined by us, in order to reduce the amounts of slow-moving, discontinued or obsolete product from their inventory. Given the uncertainties associated with the levels of price-adjustment credits to be granted to distributors, the sales price to the distributors is not fixed or determinable until the distributors resell the products to their customers. Therefore, we defer revenue recognition from sales to distributors until the distributors have sold the products to their customers. The amount of price-adjustments is dependent on future overall market conditions, and therefore the levels of these adjustments could fluctuate significantly from period to period. To the extent that we experience a significant increase in the amount of credits we issue to our distributors, there could be a material impact on the ultimate revenue and gross margin recognized relating to these transactions.

Debt

As of April 29, 2017, we had \$12.9 billion of carrying value outstanding on our short and long-term debt. The difference in the carrying value of the debt and the principal is due to the unamortized discount and issuance fees on these instruments that will accrete to the face value over the term of the debt. Our debt obligations consist of the following:

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

On June 3, 2013, we issued the 2023 Notes with semi-annual fixed interest payments due on June 1 and December 1 of each year, commencing December 1, 2013.

\$850.0 Million Aggregate Principal Amount of 3.9% Senior Unsecured Notes (2025 Notes) and \$400.0 Million Aggregate Principal Amount of 5.3% Senior Unsecured Notes (2045 Notes)

On December 14, 2015, we issued the 2025 Notes and the 2045 Notes with semi-annual fixed interest payments due on June 15 and December 15 of each year, commencing June 15, 2016.

\$400 Million Aggregate Principal Amount of 2.5% Senior Unsecured Notes (2021 Notes), \$550 Million Aggregate Principal Amount of 3.125% Senior Unsecured Notes (December 2023 Notes), \$900 Million Aggregate Principal Amount of

3.5% Senior Unsecured Notes (2026 Notes) and \$250 Million Aggregate Principal Amount of 4.5% Senior Unsecured Notes (2036 Notes)

On December 5, 2016, we issued the 2021 Notes, the December 2023 Notes, the 2026 Notes and the 2036 Notes with semi-annual fixed interest payments due on June 5 and December 5 of each year, commencing June 5, 2017.

The indentures governing the 2021 Notes, 2023 Notes, December 2023 Notes, 2025 Notes, 2026 Notes, 2036 Notes and 2045 Notes contain covenants that may limit our ability to: incur, create, assume or guarantee any debt for borrowed money secured by a lien upon a principal property; enter into sale and lease-back transactions with respect to a principal property; and consolidate with or merge into, or transfer or lease all or substantially all of our assets to, any other party. As of April 29, 2017, we were compliant with these covenants. See Note 13, *Debt*, of the Notes to our Condensed Consolidated Financial Statements contained in Part I, Item 1 of this Quarterly Report on Form 10-Q for further information on our outstanding debt.

\$5.0 Billion Aggregate Principal Term Loans

On the Acquisition Date, we entered into a 3-year unsecured term loan in the principal amount of \$2.5 billion, due March 10, 2020 and a 5-year unsecured term loan in the principal amount of \$2.5 billion, due March 10, 2022. Subsequent to the close of the second quarter of fiscal 2017, on May 10, 2017, we repaid \$100.0 million of principal on the 3-year unsecured term loan facility and repaid \$100.0 million of principal on the 5-year unsecured term loan facility.

\$4.1 Billion Aggregate Bridge Loans

On the Acquisition Date, we entered into a 90-day Bridge Credit Agreement for unsecured loans in an aggregate principal amount of \$4.1 billion. Subsequent to the close of the second quarter of fiscal 2017, on May 19, 2017, we repaid all of the \$4.1 billion of outstanding loans under the Bridge Credit Agreement.

Revolving Credit Facility

On July 10, 2015, we amended and restated our existing senior unsecured revolving credit facility with certain institutional lenders (the Credit Agreement) dated as of December 19, 2012. On September 23, 2016, we subsequently amended and restated the Credit Agreement. The Credit Agreement expires on July 10, 2020 and provides that the Company may borrow up to \$750.0 million. On the Acquisition Date, the aggregate amount of commitments under the revolving credit facility increased to \$1.0 billion and the maximum covenant level was temporarily revised. To date, we have not borrowed under this credit facility, but we may borrow in the future and use the proceeds for repayment of existing indebtedness, stock repurchases, acquisitions, capital expenditures, working capital and other lawful corporate purposes. The terms of the Credit Agreement impose restrictions on our ability to undertake certain transactions, to create certain liens on assets and to incur certain subsidiary indebtedness. In addition, the Credit Agreement contains a consolidated leverage ratio covenant of total consolidated funded debt to consolidated earnings before interest, taxes, depreciation, and amortization (EBITDA) of not greater than 5.0 to 1.0. As of April 29, 2017, we were compliant with these covenants.

Stock Repurchase Program

Our common stock repurchase program has been in place since August 2004. On February 15, 2016, the Board of Directors of the Company approved a \$600.0 million increase to the current authorization for the Company's stock repurchase program to \$1.0 billion in the aggregate. In the aggregate, our Board of Directors has authorized us to repurchase \$6.2 billion of our common stock under the program, in the aggregate. Under the program, we may repurchase outstanding shares of our common stock from time to time in the open market and through privately negotiated transactions. Unless terminated earlier by resolution of our Board of Directors, the repurchase program will expire when we have repurchased all shares authorized under the program. As of April 29, 2017, we had repurchased a total of approximately 147.0 million shares of our common stock for approximately \$5.4 billion under this program. The repurchased shares are held as authorized but unissued shares of common stock. We also from time to time repurchase shares in settlement of employee minimum tax withholding obligations due upon the vesting of restricted stock units. As a result of the Acquisition, we have temporarily suspended our share repurchase program. While we do not plan to resume share repurchases in the near term, we expect to continue repurchasing our common stock over the long-term.

Capital Expenditures

Net additions to property, plant and equipment were \$75.3 million in the first six months of fiscal 2017 and were funded with a combination of cash on hand and cash generated from operations. We expect capital expenditures for fiscal 2017 to be in the range of \$200.0 million to \$220.0 million. These capital expenditures will be funded with a combination of cash on hand and cash generated from operations.

Dividends

On May 30, 2017, our Board of Directors declared a cash dividend of \$0.45 per outstanding share of common stock. The dividend will be paid on June 20, 2017 to all shareholders of record at the close of business on June 9, 2017 and is expected to total approximately \$165.2 million. We currently expect quarterly dividends to continue at \$0.45 per share, although they remain subject to determination and declaration by our Board of Directors. The payment of future dividends, if any, will be based on several factors, including our financial performance, outlook and liquidity.

Contractual Obligations

In the first quarter of fiscal 2017, we issued \$400 million aggregate principal amount of 2.500% senior unsecured notes due December 5, 2021, \$550 million aggregate principal amount of 3.125% senior unsecured notes due December 5, 2023, \$900 million aggregate principal amount of 3.500% senior unsecured notes due December 5, 2026 and \$250 million aggregate principal amount of 4.500% senior unsecured notes due December 5, 2036 with semi-annual fixed interest payments due on June 5 and December 5 of each year, commencing June 5, 2017.

In connection with the Acquisition, in the second quarter of fiscal 2017, we entered into a Bridge Credit Agreement consisting of \$4.1 billion in aggregate principal of unsecured loans and borrowed under a Term Loan Agreement consisting of a 3-year unsecured term loan in the principal amount of \$2.5 billion and a 5-year unsecured term loan in the principal amount of \$2.5 billion.

In connection with the Acquisition, we assumed operating leases for some of Linear's facilities that expire at various dates through 2057.

Assuming the debt obligations are held to maturity, the following amounts were not previously reflected in the contractual obligations table contained in the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" of our Annual Report on Form 10-K for the fiscal year ended October 29, 2016:

| (thousands) | Total | Payment due by period | | | |
|--|---------------------|-----------------------|---------------------|---------------------|----------------------|
| | | Less than 1 Year | 1-3 Years | 3-5 Years | More than 5 Years |
| Contractual obligations: | | | | | |
| Operating leases (a) | 11,188 | 3,374 | 3,738 | 2,075 | 2,001 |
| Debt obligations (b) | 11,200,000 | 4,225,000 | 2,875,000 | 2,400,000 | 1,700,000 |
| Interest payments associated with debt obligations (c) | 1,106,408 | 193,004 | 343,254 | 209,525 | 360,625 |
| Total | <u>\$12,317,596</u> | <u>\$ 4,421,378</u> | <u>\$ 3,221,992</u> | <u>\$ 2,611,600</u> | <u>\$ 2,062,626</u> |

(a) Certain of our operating leases obligations include escalation clauses. These escalating payment requirements are reflected in the table.

(b) Debt obligations represent the principal portion of our bridge facilities, term loans and senior unsecured notes.

(c) Interest costs have been estimated based upon terms within each agreement using interest rates in effect as of April 29, 2017, where applicable.

Subsequent to the close of the second quarter of fiscal 2017, we repaid all of \$4.1 billion of outstanding loans under the Bridge Credit Agreement and repaid \$100.0 million of principal on the 3-year unsecured term loan facility and repaid \$100.0 million of principal on the 5-year unsecured term loan facility.

There have not been any other material changes during the six-month period ended April 29, 2017 to the amounts presented in the table summarizing our contractual obligations included in our Annual Report on Form 10-K for the fiscal year ended October 29, 2016.

New Accounting Pronouncements

From time to time, new accounting pronouncements are issued by the Financial Accounting Standards Board (FASB) that are adopted by us as of the specified effective date. Unless otherwise discussed, management believes that the impact of recently issued standards will not have a material impact on our future financial condition and results of operations. See Note 17, *New Accounting Pronouncements*, of the Notes to our Condensed Consolidated Financial Statements contained in Part I, Item 1 of this Quarterly Report on Form 10-Q for a description of recently issued and adopted accounting pronouncements, including the dates of adoption and impact on our historical financial condition and results of operations.

Revenue Recognition

In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers (ASU 2014-09), which supersedes nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Additionally, the guidance requires improved disclosures to help users of financial statements better understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The FASB has issued several amendments and updates to the new revenue standard, including guidance related to when an entity should recognize revenue gross as a principal or net as an agent and how an entity should identify performance obligations. As amended, ASU 2014-09 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017, which is our first quarter of fiscal 2019. Early adoption is permitted for all entities only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. We have developed a project plan for the implementation of the guidance including a review of all revenue streams to identify any differences in the timing, measurement or presentation of revenue recognition. We have reviewed a majority of our revenue streams and continue to make progress in assessing all potential impacts of the standard, including any impacts from recently issued amendments. We have also started our assessment to determine the revenue recognition impact of our recent acquisition of Linear. While we are still in the process of completing our evaluation of the standard, we currently believe the most significant impact will be related to the timing of recognition of sales to certain distributors. As described in Note 2, *Revenue Recognition*, of the Notes to the Condensed Consolidated Financial Statements contained in Item 1 of this Quarterly Report on Form 10-Q, we currently defer revenue and the related cost of sales on shipments to certain distributors until the distributors resell the products to their customers. Upon adoption of ASU 2014-09, we will no longer be permitted to defer revenue until sale by the distributor to the end customer, but rather, will be required to estimate the effects of returns and allowances provided to distributors and record revenue at the time of sale to the distributor. We are continuing to evaluate the future impact and method of adoption of ASU 2014-09 and related amendments on our consolidated financial statements and related disclosures. We are considering early adoption of the new standard using the full retrospective method in the fiscal year ending November 3, 2018. While we have made significant progress on our project plan, our ability to early adopt using the full retrospective method is dependent on system readiness and the completion of our analysis of information necessary to restate prior period financial statements.

Critical Accounting Policies and Estimates

There were no material changes in the six-month period ended April 29, 2017 to the information provided under the heading "Critical Accounting Policies and Estimates" in the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" of our Annual Report on Form 10-K for the fiscal year ended October 29, 2016.

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Exposure

In the first quarter of fiscal 2017, we issued \$400.0 million aggregate principal amount of 2.5% senior unsecured notes due December 5, 2021 (the 2021 Notes), \$550.0 million aggregate principal amount of 3.125% senior unsecured notes due December 5, 2023 (the December 2023 Notes), \$900.0 million aggregate principal amount of 3.5% senior unsecured notes due December 5, 2026 (the 2026 Notes) and \$250.0 million aggregate principal amount of 4.5% senior unsecured notes due December 5, 2036 (the 2036 Notes) with semi-annual fixed interest payments due on June 5 and December 5 of each year, commencing June 5, 2017. A hypothetical 100 basis point increase in market interest rates would reduce the fair value of our 2021 Notes by \$17.5 million, our December 2023 Notes by \$32.1 million, our 2026 Notes by \$69.2 million and our 2036 Notes by \$29.4 million. In the second quarter of fiscal 2017, we borrowed \$2.5 billion of 3-year term loans, \$2.5 billion of 5-year term loans and a \$4.1 billion bridge loan as part of the financing for the Acquisition. The term loans and bridge loan accrue interest at a floating rate, equal to the LIBOR rate corresponding with the tenor of the borrowing period plus the applicable spread (112.5 basis points for the bridge loan and 3-year term loan and 125 basis points for the 5-year term loan). Based on the \$9.1 billion of floating rate debt outstanding as of April 29, 2017, our annual interest expense would change by approximately \$91 million for each 100 basis point increase in interest rates.

These amounts were not provided in the information under Item 7A. "Quantitative and Qualitative Disclosures about Market Risk" set forth in our Annual Report on Form 10-K for the fiscal year ended October 29, 2016 as the debt was not issued at that time.

Based on our cash and cash equivalents and short-term investments outstanding as of April 29, 2017, our annual interest income would change by approximately \$62 million for each 100 basis point increase in interest rates. These amounts are updated from the prior information under Item 7A. "Quantitative and Qualitative Disclosures about Market Risk" set forth in our Annual Report on Form 10-K for the fiscal year ended October 29, 2016 to reflect an approximately \$2.0 billion increase in marketable security and short-term investment balances.

Subsequent to the close of the second quarter of fiscal 2017, we repaid all of the \$4.1 billion of outstanding loans under the Bridge Credit Agreement and repaid \$100.0 million of principal on the 3-year unsecured term loan facility and repaid \$100.0 million of principal on the 5-year unsecured term loan facility.

Other than as described above, there were no material changes in the six-month period ended April 29, 2017 to the information provided under Item 7A. "Quantitative and Qualitative Disclosures about Market Risk" set forth in our Annual Report on Form 10-K for the fiscal year ended October 29, 2016.

ITEM 4. Controls and Procedures

(a) *Evaluation of Disclosure Controls and Procedures.* Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of April 29, 2017. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended ("Exchange Act"), means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's (SEC) rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of April 29, 2017, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

(b) *Changes in Internal Control over Financial Reporting.* On March 10, 2017, we completed the acquisition of Linear Technology Corporation (Linear). Excluding goodwill and intangible assets resulting from the Acquisition, Linear represented \$2.5 billion and \$1.8 billion of our consolidated total and net assets, respectively, as of April 29, 2017 and \$147.5 million of our consolidated revenues and a net loss of \$155.0 million for the three- and six- months ended April 29, 2017. See a discussion of the Acquisition in the Notes to the Consolidated Financial Statements at Note 15 *Acquisitions*, of this Quarterly Report on Form 10-Q. We are in the process of integrating Linear into our systems and control environment as of April 29, 2017. Subject to the

foregoing, no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) have occurred during the quarter ended April 29, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. Management intends to exclude Linear from its assessment of the Company's internal control over financial reporting for fiscal 2017. This exclusion is consistent with guidance issued by the SEC that an assessment of a recently acquired business may be omitted from Management's report on internal control over financial reporting in the year of acquisition.

PART II — OTHER INFORMATION

ITEM 1A. Risk Factors

Set forth below and elsewhere in this report and in other documents we file with the Securities and Exchange Commission (SEC) are descriptions of certain risks and uncertainties that could cause our actual results to differ materially from the results contemplated by the forward-looking statements contained in this report. Additional risks and uncertainties not presently known to us or that we presently deem less significant may also adversely affect our business. The description below includes any material changes to and supersedes the description of the risk factors affecting our business previously discussed in "Risk Factors" set forth in Item 1A of our Annual Report on Form 10-K for the fiscal year ended October 29, 2016.

Our acquisition of Linear Technology Corporation (Linear) and the integration of its business, operations and employees with our own may be more difficult, costly or time consuming than expected, and the anticipated benefits and cost savings of the acquisition may not be fully realized, which could adversely impact our business operations, financial condition and results of operations.

We completed the acquisition of Linear, which we refer to as the Acquisition, on March 10, 2017. The success of the Acquisition, including the achievement of anticipated benefits and cost savings of the Acquisition, is subject to a number of uncertainties and will depend, in part, on our ability to successfully combine and integrate Linear's business into our business in an efficient and effective manner. Potential difficulties the combined company may encounter in the integration process include the following:

- the inability to successfully integrate the respective businesses of the two companies in a manner that permits the combined company to achieve the cost savings and operating synergies anticipated to result from the Acquisition, which could result in the anticipated benefits of the acquisition not being realized partly or wholly in the time frame currently anticipated or at all;
- lost sales and customers as a result of certain customers of either or both of the two companies deciding not to do business with the combined company, or deciding to decrease their amount of business in order to reduce their reliance on a single company;
- loss of key management and technical personnel, particularly our experienced engineers;
- integrating personnel, IT systems and corporate, finance and administrative infrastructures from the two companies while maintaining focus on providing consistent, high quality products and services;
- coordinating and integrating our internal operations and corporate structures;
- potential unknown liabilities and unforeseen or increased costs and expenses;
- the possibility of faulty assumptions underlying expectations regarding potential synergies and the integration process;
- incurring significant Acquisition-related costs and expenses associated with combining our operations;
- performance shortfalls at one or both of the two companies as a result of the diversion of management's attention caused by integrating the companies' operations; and
- servicing the substantial debt that we have incurred in connection with the Acquisition.

Any of these factors could result in the combined company failing to realize the anticipated benefits of the Acquisition, on the expected timeline or at all, and could adversely impact our business operations, financial condition and results of operations.

Disruptions in global credit and financial markets could materially and adversely affect our business and results of operations.

There is significant continuing uncertainty regarding the stability of global credit and financial markets. These economic uncertainties may lead consumers and businesses to postpone spending, which may cause our customers to cancel, decrease or delay their existing and future orders for our products and make it difficult for us to accurately forecast and plan our future business activities. Significant disruption to global credit and financial markets may also adversely affect our ability to access external financing sources on acceptable terms. Financial difficulties experienced by our customers could result in nonpayment

or payment delays for previously purchased products, thereby increasing our credit risk exposure. Uncertainty regarding the future stability of the global credit and financial markets could cause the value of the currency in the affected markets to deteriorate, thus reducing the purchasing power of those customers. In addition, financial difficulties experienced by our suppliers or distributors could result in product delays, increased accounts receivable defaults and inventory challenges. If economic conditions deteriorate, we may record additional charges relating to restructuring costs or the impairment of assets and our business and results of operations could be materially and adversely affected.

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

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

- the effects of adverse economic conditions in the markets in which we sell our products;
- changes in customer demand for our products and/or for end products that incorporate our products;
- the timing, delay, reduction or cancellation of significant customer orders and our ability to manage inventory;
- fluctuations in customer order patterns and seasonality;
- our ability to effectively manage our cost structure in both the short term and over a longer duration;
- changes in geographic, product or customer mix;
- changes in our effective tax rates or new or revised tax legislation in the United States, Ireland or worldwide;
- the timing of new product announcements or introductions by us, our customers or our competitors and the market acceptance of such products;
- competitive pricing pressures;
- fluctuations in manufacturing yields, adequate availability of wafers and other raw materials, and manufacturing, assembly and test capacity;
- the ability of our third-party suppliers, subcontractors and manufacturers to supply us with sufficient quantities of raw materials, products and/or components;
- a decline in infrastructure spending by foreign governments, including China;
- a decline in the U.S. Government defense budget, changes in spending or budgetary priorities, a prolonged U.S. Government shutdown or delays in contract awards;
- any significant decline in our backlog;
- our ability to recruit, hire, retain and motivate adequate numbers of engineers and other qualified employees to meet the demands of our customers;
- our ability to generate new design opportunities and win competitive bid selection processes;
- the increasing costs of providing employee benefits, including health insurance, retirement plan and pension plan contributions and retirement benefits;
- our ability to utilize our manufacturing facilities at efficient levels;
- potential significant litigation-related costs or product warranty and/or indemnity claims, including those not covered by our suppliers or insurers;
- the difficulties inherent in forecasting future operating expense levels, including with respect to costs associated with labor, utilities, transportation and raw materials;
- the costs related to compliance with increasing worldwide government, environmental and social responsibility regulations;
- new accounting pronouncements or changes in existing accounting standards and practices; and

- the effects of public health emergencies, natural disasters, widespread travel disruptions, security risks, terrorist activities, international conflicts, government sanctions, changes in law, including executive orders, changes in import and export regulations and other events beyond our control.

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

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

Our effective tax rate reflects the applicable tax rate in effect in the various tax jurisdictions around the world where our income is earned. Our effective tax rate for fiscal 2016 and the first six months of fiscal 2017 was below the U.S. federal statutory tax rate of 35%, primarily due to lower statutory tax rates applicable to our operations in the foreign jurisdictions in which we earn income. A number of factors may increase our future effective tax rate, including: new or revised tax laws or legislation or the interpretation of such laws or legislation by governmental authorities; increases in tax rates in various jurisdictions; variation in the mix of jurisdictions in which our profits are earned and taxed; repatriation of non-U.S. earnings; any adverse resolution of ongoing tax audits or adverse rulings from taxing authorities worldwide; changes in the valuation of our deferred tax assets and liabilities; adjustments to income taxes upon finalization of various tax returns; increases in expenses not deductible for tax purposes, including executive compensation subject to the limitations of Section 162(m) of the Internal Revenue Code and amortization of assets acquired in connection with strategic transactions; decreased availability of tax deductions for stock-based compensation awards worldwide; and changes in available tax credits. Any significant increase in our future effective tax rate could adversely impact our net income during future periods.

On October 5, 2015, the Organization for Economic Cooperation and Development (OECD), an international association of thirty-five countries, including the United States, Ireland and UK, released the final reports from its Base Erosion and Profit Shifting (BEPS) Action Plans. The BEPS recommendations covered a number of issues, including country-by-country reporting, permanent establishment rules, transfer pricing rules and tax treaties. Future tax reform resulting from such recommendations may result in changes to long-standing tax principles, which could adversely affect our effective tax rate or result in higher cash tax liabilities.

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

We typically do not have long-term sales contracts with our customers. In certain markets where end-user demand may be particularly volatile and difficult to predict, some customers place orders that require us to manufacture product and have it available for shipment, even though the customer is unwilling to make a binding commitment to purchase all, or even any, of the product. In other instances, we manufacture product based on forecasts of customer demands, which may fluctuate significantly on a quarterly or annual basis. Additionally, our U.S. government contracts and subcontracts may be funded in increments over a number of government budget periods and typically can be terminated by the government for its convenience. As a result, we may incur inventory and manufacturing costs in advance of anticipated sales, and we are subject to the risk of lower than expected orders or cancellations of orders, leading to a sharp reduction of sales and backlog. Further, orders or forecasts for products that meet the customer's unique requirements and that are canceled or unrealized orders would, in addition, result in an inventory of unsaleable products, causing potential inventory write-offs, and we may be unable to recover all of our costs incurred or committed. As a result of lengthy manufacturing cycles for certain of the products that are subject to these uncertainties, the amount of unsaleable product could be substantial. Incorrect forecasts, or reductions, cancellations or delays in orders for our products could adversely affect our operating results.

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

Our future success significantly depends on our continued ability to execute our business strategy, continue to improve our existing products and design, develop, produce and market innovative new products. Product design, development, innovation and enhancement is often a complex, time-consuming and costly process involving significant investment in research and development, with no assurance of return on investment. There can be no assurance that we will be able to develop and introduce new and improved products in a timely or efficient manner or that new and improved products, if

developed, will achieve market acceptance. Our products generally must conform to various evolving and sometimes competing industry standards, which may adversely affect our ability to compete in certain markets or require us to incur significant costs. In addition, our customers generally impose very high quality and reliability standards on our products, which often change and may be difficult or costly to satisfy. Any inability to satisfy customer quality and reliability standards or comply with industry standards and technical requirements may adversely affect demand for our products and our results of operations. In addition, our growth is dependent on our ability to generate new design opportunities and win competitive bid selection processes. Failure to obtain or maintain a particular design win may prevent us from obtaining or maintaining design wins in subsequent generations of a particular product and could also weaken our position in future competitive selection processes. Our growth is also dependent on our ability to identify and penetrate new markets where we have limited experience and competition is intense. Some of our customers in new markets are less established, which could subject us to increased credit risk. There can be no assurance that the markets we serve and/or target based on our business strategy will grow in the future, that our existing and new products will meet the requirements of these markets, that our products, or the products in which our products are used, will achieve customer acceptance in these markets, that competitors will not force price reductions or take market share from us, or that we can achieve or maintain adequate gross margins or profits in these markets. Additionally, developing markets, such as the developing Internet of Things (IoT) market, require significant investments, resources and technological advancements in order to compete effectively and there can be no assurance that we will achieve success in these markets. Furthermore, a decline in demand in one or several of our end-user markets could have a material adverse effect on the demand for our products and our results of operations.

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

We face intense competition in the semiconductor industry, and we expect this competition to increase in the future, including from companies located outside of the United States. Competition is generally based on innovation, design, quality and reliability of products, product performance, features and functionality, product pricing, availability and capacity, technological service and support, and the availability of integrated system solutions, with the relative importance of these factors varying among products, markets and customers. Many companies have sufficient financial, manufacturing, technical, sales and marketing resources to develop and market products that compete with our products. Some of our competitors may have more advantageous supply or development relationships with our current and potential customers or suppliers. Our competitors also include emerging companies selling specialized products in markets we serve and entities outside of the U.S., including entities associated with efforts by foreign governments to create indigenous semiconductor industries. Existing or new competitors may develop products or technologies that more effectively address the demands of our customers and markets with enhanced performance, features and functionality, lower power requirements, greater levels of integration or lower cost. In addition, as we seek to expand our business, including the design and production of products and services for the IoT market, we may encounter increased competition from our current competitors and/or new competitors. Increased competition in certain markets has resulted in and may continue to result in declining average selling prices, reduced gross margins and loss of market share in those markets. There can be no assurance that we will be able to compete successfully in the future against existing or new competitors, or that our operating results will not be adversely affected by increased competition. In addition, the semiconductor industry has experienced significant consolidation over the past several years. Consolidation among our competitors could lead to a changing competitive landscape, which could negatively impact our competitive position and market share and harm our results of operations.

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

We rely, and plan to continue to rely, on third-party suppliers, assembly and test subcontractors, freight carriers and wafer fabricators (collectively, suppliers) to supply most of our wafers that can be manufactured using industry-standard submicron processes. This reliance involves several risks, including reduced control over availability, capacity utilization, delivery schedules, manufacturing yields, and costs. We currently source approximately 40% of our wafer requirements annually from third-party wafer fabrication foundries, primarily Taiwan Semiconductor Manufacturing Company. In addition, these suppliers often provide manufacturing services to our competitors and therefore periods of increased industry demand may result in capacity constraints. In certain instances, the third-party supplier is the sole source of highly specialized processing services. If our suppliers are unable or unwilling to manufacture and deliver components to us on the time schedule and of the quality or quantity that we require or provide us with required manufacturing processes, we may be forced to seek to engage additional or replacement suppliers, which could result in additional expenses and delays in product development or shipment of product to our customers. If additional or replacement suppliers or manufacturing processes are not available, we may also experience delays in product development or shipment which could, in turn, result in the temporary or permanent loss of customers.

A prolonged disruption of our internal manufacturing operations could have a material adverse effect on our business, financial condition and results of operations.

In addition to leveraging an outsourcing model for manufacturing operations, we also rely on our internal manufacturing operations located in the United States, Ireland, the Philippines, Singapore and Malaysia. A prolonged disruption at or inability to utilize one or more of our manufacturing facilities, loss of raw materials or damage to our manufacturing equipment for any reason, including due to natural or man-made disasters or other events outside of our control, such as widespread outbreaks of illness or the failure to maintain our labor force at one or more of these facilities may disrupt our operations, delay production, shipments and revenue and result in us being unable to timely satisfy customer demand. As a result, we could forgo revenue opportunities, potentially lose market share and damage our customer relationships, all of which could materially and adversely affect our business, financial condition and results of operations.

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

Our ability to make payments of principal and interest on our indebtedness when due, including the significant indebtedness that we have incurred in connection with the Acquisition, depends upon our future performance, which will be subject to general economic conditions, industry cycles and financial, business and other factors affecting our consolidated operations, many of which are beyond our control. If we are unable to generate sufficient cash flow from operations in the future to service our outstanding debt, we may be required to, among other things:

- seek additional financing in the debt or equity markets;
- refinance or restructure all or a portion of our indebtedness;
- borrow under our revolving credit facility;
- divert funds that would otherwise be invested in our operations;
- repatriate earnings at higher tax rates that are indefinitely reinvested in foreign locations;
- sell selected assets; or
- reduce or delay planned capital expenditures or operating expenditures.

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

Our significant existing indebtedness could also have the effect, among other things, of reducing our flexibility to respond to changing business and economic conditions, reducing funds available for working capital, capital expenditures, acquisitions and other general corporate purposes or creating competitive disadvantages relative to other companies with lower debt levels.

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

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

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

Semiconductor products are highly complex and may contain defects when they are first introduced or as new versions are developed. Failures in our products and services or in the products of customers could result in damage to our reputation and reliability and increase our liability exposure to third parties. Certain of our products and services could also contain security vulnerabilities, defects, bugs and errors, which could also result in significant data losses, security breaches and theft of intellectual property. We generally warrant our products to our customers for one year from the date title passes from us. We invest significant resources in the testing of our products; however, if any of our products contain defects, we may be required

to incur additional development and remediation costs pursuant to warranty and indemnification provisions in our customer contracts and purchase orders. These problems may divert our technical and other resources from other product development efforts and could result in claims against us by our customers or others, including liability for costs associated with product recalls, which may adversely impact our operating results. We may also be subject to customer indemnity claims. Our customers have on occasion been sued, and may be sued in the future, by third parties alleging infringement of intellectual property rights, or damages resulting from use of our products. Those customers may seek indemnification from us under the terms and conditions of our sales contracts with them. In certain cases, our potential indemnification liability may be significant. If any of our products contains defects, or has reliability, quality or compatibility problems, our reputation may be damaged, which could make it more difficult for us to sell our products to existing and prospective customers and could also adversely affect our operating results.

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

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

The semiconductor industry is characterized by frequent claims and litigation involving patent and other intellectual property rights, including claims arising under our contractual obligations to indemnify our customers. Other companies or individuals have obtained patents covering a variety of semiconductor designs and processes, and we might be required to obtain licenses under some of these patents or be precluded from making and selling infringing products, if those patents are found to be valid and infringed by us. In the event a third party makes a valid intellectual property claim against us and a license is not available to us on commercially reasonable terms, or at all, we could be forced either to redesign or to stop production of products incorporating that intellectual property, and our operating results could be materially and adversely affected. Litigation may be necessary to enforce our patents or other of our intellectual property rights or to defend us against claims of infringement, and this litigation could be costly and divert the attention of our key personnel. We could also be subject to litigation or arbitration disputes arising under our contractual obligations, as well as indemnity, warranty or product liability claims that could lead to significant costs and expenses as we defend those claims or pay damage awards. There can be no assurance that we are adequately insured to protect against all claims and potential liabilities, and we may elect to self-insure with respect to certain matters. We may incur costs and expenses relating to a recall of our customers' products due to an alleged failure of components we supply. An adverse outcome in litigation or arbitration could have a material adverse effect on our financial position or on our operating results or cash flows in the period in which the dispute is resolved.

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

Our future success depends, in part, on our ability to protect our intellectual property. We primarily rely on patent, mask work, copyright, trademark and trade secret laws, as well as nondisclosure agreements and other methods, to protect our proprietary technologies and processes. Despite our efforts to protect our intellectual property, it is possible that competitors or other unauthorized third parties may obtain, copy, reverse engineer, use or disclose our technologies, products and processes. Moreover, the laws of foreign countries in which we design, manufacture, market and sell our products may afford little or no effective protection of our proprietary intellectual property.

There can be no assurance that the claims allowed in our issued patents will be sufficiently broad to protect our technology. In addition, any of our existing or future patents may be challenged, invalidated or circumvented. As such, any rights granted under these patents may not provide us with adequate protection. We may not be able to obtain foreign patents or pending applications corresponding to our U.S. patents and applications. Even if foreign patents are granted, effective enforcement in foreign countries may not be available. If our patents and mask works do not adequately protect our technology, our competitors may be able to offer products similar to ours. Our competitors may also be able to develop similar technology independently or design around our patents.

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

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

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

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

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

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

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

Acquisitions also involve a number of risks, including:

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

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

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

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

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

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

- political, legal and economic changes or instability and civil unrest in foreign markets;
- currency conversion risks and exchange rate and interest rate fluctuations;
- limitations on the repatriation of earnings;
- trade and travel restrictions or government sanctions, including import or export tariffs or restrictions imposed by the U.S. government on trading with parties in foreign countries;
- complex, varying and changing government regulations and legal standards and requirements, particularly with respect to price protection, competition practices, export control regulations and restrictions, customs and tax requirements, immigration, anti-boycott regulations, data privacy, intellectual property, anti-corruption and environmental compliance, including U.S. customs and export regulations and restrictions, including International Traffic in Arms Regulations and the Foreign Corrupt Practices Act;
- economic disruption from terrorism and threats of terrorism and the response to them by the U.S. and its allies;
- increased managerial complexities, including different employment practices and labor issues;
- greater difficulty enforcing intellectual property rights and weaker laws protecting such rights;
- natural disasters or pandemics;
- transportation disruptions and delays and increases in labor and transportation costs;
- changes to foreign taxes, tariffs and freight rates;
- fluctuations in raw material costs and energy costs;
- greater difficulty in accounts receivable collections and longer collection periods; and
- costs associated with our foreign defined benefit pension plans.

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

Many of these risks are present in China. While we expect to continue to expand our business and operations in China, our success in the Chinese markets may be adversely affected by China's continuously evolving policies, laws and regulations, including those relating to taxation, import and export tariffs or restrictions, currency controls, antitrust, the environment, indigenous innovation and the promotion of a domestic semiconductor industry, and intellectual property rights and enforcement and protection of those rights. Enforcement of existing laws or agreements may be inconsistent. In addition, changes in the political environment, governmental policies, international trade policies and relations, or U.S.-China relations could result in revisions to laws or regulations or their interpretation and enforcement, exposure of our proprietary intellectual

property, increased taxation, and restrictions on imports, import duties or currency revaluations, which could have an adverse effect on our business plans and operating results.

At April 29, 2017, our principal source of liquidity was \$6.2 billion of cash and cash equivalents and short-term investments, of which approximately \$0.7 billion was held in the United States and the remaining balance was held outside the United States in various foreign subsidiaries. As we intend to reinvest substantially all of our foreign earnings indefinitely, this cash held outside the United States is not available to meet certain aspects of our cash requirements in the United States. We require a substantial amount of cash in the United States for operating requirements, stock repurchases, cash dividends and acquisitions. If we are unable to address our U.S. cash requirements through operations, borrowings under our current credit facility, future debt or equity offerings or other sources of cash obtained at an acceptable cost, it may be necessary for us to consider repatriation of earnings that are indefinitely reinvested, and we may be required to pay additional taxes under current tax laws, which could have a material adverse effect on our results of operations and financial condition.

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

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

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

Our industry is subject to EHS requirements, particularly those environmental requirements that control and restrict the sourcing, use, transportation, emission, discharge, storage and disposal of certain chemicals, minerals, elements and materials used or produced in the semiconductor manufacturing process. Public attention to environmental, sustainability and social responsibility concerns continues to increase, and our customers routinely include stringent environmental and other standards in their contracts with us. Changes in EHS laws or regulations may require us to invest in costly equipment or alter the way our products are made and may adversely affect the sourcing, supply and pricing of materials used in our products. In addition, we use hazardous and other regulated materials that subject us to risks of strict liability for damages caused by potential or actual releases of such materials. Any failure to control such materials adequately or to comply with existing or future EHS statutory or regulatory standards, requirements or contractual obligations could result in liability for damages and remediation; the imposition of regulatory penalties and civil and criminal fines; the suspension or termination of the development, manufacture, sale or use of certain of our products; changes to our manufacturing processes or a need to substitute materials that may cost more or be less available; damage to our reputation; and/or increased expenses associated with compliance, each of which could have a material adverse effect on our business and operating results.

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

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

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

Under some of our government subcontracts, we are required to maintain secure facilities and to obtain security clearances for personnel involved in performance of the contract, in compliance with applicable federal standards. If we were unable to comply with these requirements, or if personnel critical to our performance of these contracts were unable to obtain

or maintain their security clearances, we might be unable to perform these contracts or compete for other projects of this nature, which could adversely affect our revenue.

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

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

Our stock price may be volatile.

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

- global economic conditions generally;
- crises in global credit, debt and financial markets;
- actual or anticipated fluctuations in our revenue and operating results;
- changes in financial estimates or other statements made by securities analysts or others in analyst reports or other publications or our failure to perform in line with those estimates or statements or our published guidance;
- financial results and prospects of our customers;
- U.S. and foreign government actions;
- changes in market valuations of other semiconductor companies;
- rumors and speculation in the press, investment community or on social media about us, our customers or other companies in our industry;
- announcements by us, our customers or our competitors of significant new products, technical innovations, material transactions, acquisitions or dispositions, litigation, capital commitments or revised earnings estimates;
- departures of key personnel;
- alleged noncompliance with laws, regulations or ethics standards by us or any of our employees, officers or directors; and
- negative media publicity targeting us or our suppliers, customers or competitors.

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

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

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

Issuer Purchases of Equity Securities

On March 10, 2017, we completed the acquisition of Linear Technology Corporation, an independent manufacturer of high performance analog integrated circuits, which we refer to as the Acquisition. As a result of the Acquisition, we have temporarily suspended our share repurchase program.

| Period | Total Number of Shares Purchased (a) | Average Price Paid Per Share (b) | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (c) | Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs |
|--|--|--|--|---|
| January 29, 2017 through February 25, 2017 | 2,566 | \$ 76.48 | — | \$ 792,501,619 |
| February 26, 2017 through March 25, 2017 | 212,356 | \$ 82.77 | — | \$ 792,501,619 |
| March 26, 2017 through April 29, 2017 | 76,705 | \$ 79.40 | — | \$ 792,501,619 |
| Total | 291,627 | \$ — | — | \$ 792,501,619 |

- (a) Consists of 291,627 shares withheld by us from employees to satisfy minimum employee tax obligations upon vesting of restricted stock units granted to our employees under our equity compensation plans.
- (b) The average price paid for shares in connection with vesting of restricted stock units are averages of the closing stock price at the vesting date which is used to calculate the number of shares to be withheld.
- (c) Shares repurchased pursuant to the stock repurchase program publicly announced on August 12, 2004. On February 15, 2016, the Board of Directors of the Company approved an increase to the current authorization for the stock repurchase program by \$600.0 million to \$1.0 billion in the aggregate. In the aggregate, our Board of Directors has authorized us to repurchase \$6.2 billion of our common stock under the program. Under the repurchase program, we may repurchase outstanding shares of our common stock from time to time in the open market and through privately negotiated transactions. Unless terminated earlier by resolution of our Board of Directors, the repurchase program will expire when we have repurchased all shares authorized for repurchase under the repurchase program.

ITEM 6. Exhibits

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

SIGNATURES

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

ANALOG DEVICES, INC.

Date: May 31, 2017

By: /S/ VINCENT ROCHE

Vincent Roche
President and Chief Executive Officer
(Principal Executive Officer)

Date: May 31, 2017

By: /S/ EILEEN WYNNE

Eileen Wynne
Vice President, Chief Accounting Officer
and Interim Chief Financial Officer
(Principal Financial Officer)

Exhibit Index

| <u>Exhibit No.</u> | <u>Description</u> |
|--------------------|--|
| 4.1 | Linear Technology Corporation Amended and Restated 2005 Equity Incentive Plan, filed as exhibit 4.1 to the Post-Effective Amendment No. 1 on Form S-8 to the Company's Registration Statement on Form S-4 (File No. 333-213454) as filed with the Commission on March 15, 2017 and incorporated herein by reference. |
| 4.2 | Analog Devices, Inc. Amended and Restated 2010 Equity Incentive Plan, filed as exhibit 4.2 to the Post-Effective Amendment No. 1 on Form S-8 to the Company's Registration Statement on Form S-4 (File No. 333-213454) as filed with the Commission on March 15, 2017 and incorporated herein by reference. |
| 10.1† | Form of Analog Devices, Inc. Equity Award Conversion Notice to Linear employees. |
| 10.2† | Form of Global Restricted Stock Unit Agreement for Eligible Employees for usage under the Analog Devices, Inc. Amended and Restated 2010 Equity Incentive Plan. |
| 10.3† | Separation Agreement between Analog Devices, Inc. and David A. Zinsner, dated March 27, 2017. |
| 10.4 | Bridge Credit Agreement, dated as of March 10, 2017, among Analog Devices, Inc., as Borrower, JPMorgan Chase Bank, N.A., as Administrative Agent, and each lender from time to time party thereto, filed as exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 1-07819) as filed with the Commission on March 10, 2017 and incorporated herein by reference. |
| 31.1† | Certification Pursuant to Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Chief Executive Officer). |
| 31.2† | Certification Pursuant to Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Chief Financial Officer). |
| 32.1† | Certification Pursuant to 18 U.S.C. Section 1350 (Chief Executive Officer). |
| 32.2† | Certification Pursuant to 18 U.S.C. Section 1350 (Chief Financial Officer). |
| 101.INS | XBRL Instance Document.** |
| 101.SCH | XBRL Schema Document.** |
| 101.CAL | XBRL Calculation Linkbase Document.** |
| 101.LAB | XBRL Labels Linkbase Document.** |
| 101.PRE | XBRL Presentation Linkbase Document.** |
| 101.DEF | XBRL Definition Linkbase Document.** |
| † | Filed or furnished herewith. |
| ** | Submitted electronically herewith. |

Attached as Exhibit 101 to this report are the following formatted in XBRL (Extensible Business Reporting Language): (i) Condensed Consolidated Statements of Income for the three and six months ended April 29, 2017 and April 30, 2016, (ii) Condensed Consolidated Statements of Comprehensive Income for the three and six months ended April 29, 2017 and April 30, 2016, (iii) Condensed Consolidated Balance Sheets at April 29, 2017 and October 29, 2016, (iv) Condensed Consolidated Statements of Cash Flows for the six months ended April 29, 2017 and April 30, 2016 and (v) Notes to Condensed Consolidated Financial Statements for the three and six months ended April 29, 2017.