

S E C U R I T I E S A N D E X C H A N G E C O M M I S S I O N

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 July 30, 1994

OR

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

For the Transition period from _____ to _____

Commission File No. 1-7819

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

 Massachusetts
(State or other jurisdiction of
incorporation or organization)

 04-2348234
(I.R.S. Employer
Identification No.)

 One Technology Way, Norwood, MA
(Address of principal executive offices)

 02062-9106
(Zip Code)

 (617) 329-4700

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or 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 X NO

The number of shares outstanding of each of the issuer's classes of Common Stock as of August 31, 1994 was 50,083,606 shares of Common Stock.

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 -----	
	July 30, 1994 -----	July 31, 1993 -----
Net sales	\$197,058	\$173,104
Cost of sales	99,890 -----	91,378 -----
Gross margin	97,168	81,726
Operating expenses:		
Research and development	27,205	24,307
Selling, marketing, general and administrative	43,333 -----	40,184 -----
	70,538 -----	64,491 -----
Operating income	26,630	17,235
Nonoperating expenses (income):		
Interest expense	1,796	2,005
Other	(891) -----	(31) -----
	905 -----	1,974 -----
Income before income taxes	25,725	15,261
Provision for income taxes	6,046 -----	3,099 -----
Net income	\$ 19,679 =====	\$ 12,162 =====
Shares used to compute earnings per share	51,657 =====	50,847 =====
Earnings per share of common stock	\$ 0.38 =====	\$ 0.24 =====

See accompanying notes.

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

	Nine Months Ended	
	July 30, 1994	July 31, 1993
	-----	-----
Net sales	\$570,173	\$487,319
Cost of sales	292,991	256,686
	-----	-----
Gross margin	277,182	230,633
Operating expenses:		
Research and development	77,821	69,153
Selling, marketing, general and administrative	126,534	117,600
	-----	-----
	204,355	186,753
Operating income	72,827	43,880
Nonoperating expenses (income):		
Interest expense	5,455	5,298
Other	(1,022)	148
	-----	-----
	4,433	5,446
	-----	-----
Income before income taxes	68,394	38,434
Provision for income taxes	15,571	7,992
	-----	-----
Net income	\$ 52,823	\$ 30,442
	=====	=====
Shares used to compute earnings per share	51,336	50,328
	=====	=====
Earnings per share of common stock	\$ 1.03	\$ 0.60
	=====	=====

See accompanying notes.

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

Assets	July 30, 1994	October 30, 1993	July 31, 1993
	-----	-----	-----
Cash and cash equivalents	\$121,336	\$ 80,668	\$ 61,231
Short-term investments	36,424	-	-
Accounts receivable less allowances of \$6,618 (\$2,395 in October 1993 and \$2,480 in July 1993)	154,316	145,663	126,229
Inventories:			
Finished goods	47,854	51,359	50,379
Work in process	70,346	80,418	79,122
Raw materials	15,870	18,645	22,915
	-----	-----	-----
	134,070	150,422	152,416
Prepaid income taxes	23,455	22,207	20,000
Prepaid expenses	6,071	4,240	3,628
	-----	-----	-----
Total current assets	475,672	403,200	363,504
	-----	-----	-----
Property, plant and equipment, at cost:			
Land and buildings	87,790	81,110	81,567
Machinery and equipment	461,177	451,248	438,615
Office equipment	37,039	33,170	32,086
Leasehold improvements	32,010	26,429	23,916
	-----	-----	-----
	618,016	591,957	576,184
Less accumulated depreciation and amortization	370,105	343,527	330,071
	-----	-----	-----
Net property, plant and equipment	247,911	248,430	246,113
	-----	-----	-----
Intangible assets, net	19,770	21,306	21,819
Deferred charges and other assets	8,779	5,556	5,286
	-----	-----	-----
Total other assets	28,549	26,862	27,105
	-----	-----	-----
	\$752,132	\$678,492	\$636,722
	=====	=====	=====

See accompanying notes.

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

Liabilities and Stockholders' Equity	July 30, 1994 -----	October 30, 1993 -----	July 31, 1993 -----
Short-term borrowings and current portion of long-term debt	\$ 22,246	\$ 2,006	\$ 1,932
Obligations under capital leases	307	335	330
Accounts payable	52,176	48,779	42,549
Deferred income on shipments to domestic distributors	19,598	16,417	12,496
Income taxes payable	19,207	15,405	5,803
Accrued liabilities	49,340	49,893	38,214
	-----	-----	-----
Total current liabilities	162,874	132,835	101,324
	-----	-----	-----
Long-term debt	80,000	100,000	100,000
Noncurrent obligations under capital leases	75	297	383
Deferred income taxes	8,000	8,540	14,000
Other noncurrent liabilities	4,647	4,802	4,339
	-----	-----	-----
Total noncurrent liabilities	92,722	113,639	118,722
	-----	-----	-----
Commitments and Contingencies			
Stockholders' equity:			
Preferred stock, \$1.00 par value, 500,000 shares authorized, none outstanding	-	-	-
Common stock, \$.16 2/3 par value, 150,000,000 shares authorized, 51,287,792 shares issued (50,924,637 in October 1993, 50,746,609 in July 1993)	8,548	8,488	8,458
Capital in excess of par value	151,336	143,502	141,280
Retained earnings	340,521	287,698	273,683
Cumulative translation adjustment	5,763	5,473	5,874
	-----	-----	-----
Total stockholders' equity	506,168	445,161	429,295
	-----	-----	-----
Less 1,231,610 shares in treasury, at cost (1,727,396 in October 1993 and 1,688,530 in July 1993)	9,632	13,143	12,619
	-----	-----	-----
Total stockholders' equity	496,536	432,018	416,676
	-----	-----	-----
	\$752,132	\$678,492	\$636,722
	=====	=====	=====

See accompanying notes.

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

	Nine Months Ended	
	July 30, 1994	July 31, 1993
	-----	-----
OPERATIONS		
Cash flows from operations:		
Net income	\$ 52,823	\$ 30,442
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation and amortization	46,068	43,939
Deferred income taxes	(595)	1,316
Other noncash expenses	2,052	2,206
Changes in operating assets and liabilities	11,686	(24,641)
	-----	-----
Total adjustments	59,211	22,820
	-----	-----
Net cash provided by operations	112,034	53,262
	-----	-----
INVESTMENTS		
Cash flows from investments:		
Additions to property, plant and equipment, net	(42,783)	(49,007)
Purchase of short-term investments	(36,424)	-
	-----	-----
Net cash used for investments	(79,207)	(49,007)
	-----	-----
FINANCING ACTIVITIES		
Cash flows from financing activities:		
Proceeds from employee stock plans	8,987	8,602
Payments on capital lease obligations	(250)	(232)
Net (decrease) in variable rate borrowings	(66)	(30,027)
Proceeds from issuance of long-term debt	-	80,000
Payments on fixed rate borrowings	-	(20,146)
	-----	-----
Net cash provided by financing activities	8,671	38,197
	-----	-----
Effect of exchange rate changes on cash	(830)	1,049
	-----	-----
Net increase in cash and cash equivalents	40,668	43,501
Cash and cash equivalents at beginning of period	80,668	17,730
	-----	-----
Cash and cash equivalents at end of period	\$121,336	\$ 61,231
	=====	=====
SUPPLEMENTAL INFORMATION		
Cash paid during the period for:		
Income taxes	\$ 10,127	\$ 2,905
	=====	=====
Interest	\$ 3,973	\$ 3,751
	=====	=====

See accompanying notes.

Analog Devices, Inc.
Notes to Condensed Consolidated Financial Statements
July 30, 1994

Note 1 - In the opinion of management, the information furnished in the accompanying financial statements reflects all adjustments, consisting only of normal recurring adjustments, which are necessary to a fair statement of the results for this interim period and should be read in conjunction with the most recent Annual Report to Stockholders.

Note 2 - Commitments and Contingencies

The Company is involved in claims as a defendant in various lawsuits including patent infringement and anti-trust matters as previously disclosed in the Company's Annual Report on Form 10-K for the fiscal year ended October 30, 1993.

The lawsuit brought by Crystal Semiconductor Corporation ("Crystal") against the Company on November 12, 1992 in the United States District Court for the Western District of Texas (Austin Division) for patent infringement (as previously reported in the Company's Annual Report on Form 10-K for the fiscal year ended October 30, 1993 and Quarterly Reports for the quarters ending January 29 and April 30, 1994) has been dismissed. Crystal and the Company have executed a definitive agreement providing a cross-license of technology between the Company and Crystal and the payment of related license fees for technology to be used pursuant to the agreement. The Company does not believe that compliance with the terms of this licensing agreement will have a material adverse effect on the Company's financial position or overall trends in its results of operations.

In the lawsuit brought by Maxim Integrated Products, Inc. ("Maxim") on November 11, 1992 in the United States District Court for the Northern District of California for antitrust and related business tort claims, the court granted the Company's motion for summary judgment on September 7, 1994. The court determined that there were no material factual issues existing and that as a matter of law Maxim was not entitled to relief as to any of the claims asserted. Maxim has a 30-day period to appeal the summary judgment granted by the District Court.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of Operations

Third Quarter of Fiscal 1994 Compared to the Third Quarter of Fiscal 1993

Net sales of \$197.1 million for the third quarter of fiscal 1994 grew \$24.0 million or 14% from net sales of \$173.1 million for the third quarter of fiscal 1993. Third quarter sales growth was attributable to an increase in sales volumes of both standard linear and system-level IC products which together grew 16% year-over-year and accounted for 90% of sales. Broad demand for standard linear ICs continued strong during the third quarter driven by increased penetration of the distribution channel. System-level ICs also experienced strong growth compared to the same quarter last year. Geographically, the strongest demand growth occurred in the North American distributor channel for which sales rose approximately 38% over the third quarter of 1993. Sales to international customers were strongest in Japan, aided in part by a weaker dollar, followed by Southeast Asia. European sales were down slightly from the year ago period due to weaker economic conditions.

Gross margin improved to 49.3% of sales from 47.2% in the third quarter of 1993. This increase resulted principally from continued improvement in gross margins of system-level IC products year-over-year as further volume efficiencies were realized in this product area. Gross margins in the Company's standard linear IC business remained at a high level while overall gross margin on all IC products was over 50%, up from the same quarter last year. R&D expense for the third quarter of 1994 grew \$2.9 million over the same quarter last year but as a percentage of sales was relatively stable at 13.8% compared to 14.0% last year. R&D spending is expected to increase slightly during the balance of fiscal 1994 as the Company maintains its commitment to product development in the PC, communications and automotive markets. The ratio of R&D to sales is expected to be held at approximately 14% for the balance of the year. Selling, marketing, general and administrative (SMG&A) expenses grew 7.8% in absolute dollars compared to the third quarter of 1993, increasing at a lower rate than sales year-over-year. As a result, SMG&A as a percentage of sales decreased to 22.0% from 23.2% in the third quarter of 1993. The 7.8% or \$3.1 million increase in SMG&A expenses resulted mostly from increased marketing expenses associated with many new product launches and additional incentive expense. In total, operating expenses declined to 35.8% of sales, down from 37.3% one year ago, in line with the Company's focus on maintaining operating expense growth below that of sales.

Operating income of \$26.6 million or 13.5% of sales was 55% higher than the \$17.2 million or 10.0% of sales for the year-earlier period. This performance gain reflected the higher sales level, improvement in gross margin as a percent of sales and reduction in the operating expense to sales ratio.

Nonoperating expenses were reduced significantly from \$2.0 million for the third quarter of 1993 to \$905,000 for the third quarter of 1994 as net interest expense declined from \$1.6 million to \$261,000 over the same period in response to increased cash balances.

The effective income tax rate rose from 20.3% for the third quarter a year ago to 23.5% for the third quarter of 1994 due to a shift in the mix of worldwide profits to higher tax rate jurisdictions. The Company expects the effective tax rate to migrate upwards due to anticipated earnings growth in higher tax rate jurisdictions including the U.S.

The growth in sales, improved operating performance and lower nonoperating expenses led to the generation of net income of \$19.7 million or \$0.38 per share, up 62% from \$12.2 million or \$0.24 per share compared to the year-earlier period.

Third Quarter of Fiscal 1994 Compared to the Second Quarter of Fiscal 1994

Net sales increased from \$192.0 million for the second quarter of 1994 to \$197.1 million for the third quarter of 1994, an increase of \$5.0 million or approximately 3%. The sales increase resulted from continued rising demand for system-level ICs used in application-specific computer products as well as continuing strength in standard linear products. Sales of system-level ICs were particularly strong in Southeast Asia for high-performance hard disk drives. Growth in sales of standard linear IC products was fueled largely by revenue increases in Japan and also in the distributor channel in North America with sales to end customers through North American distribution increasing again sequentially during a typically seasonally slow period.

Gross margin widened from 48.7% in the second quarter of 1994 to 49.3% in the third quarter driven primarily by a greater mix of higher-margin, standard linear IC sales.

R&D expense for the third quarter rose \$845,000 or 3.2% from the prior quarter as the Company continued funding of its initiatives in communications and computer products and expanded the scope of development work in micromachined accelerometers. R&D expense as a percentage of sales remained relatively flat at 13.8% compared to the second quarter's 13.7%, reflecting efforts to target R&D expenditures for the most promising strategic opportunities. SMG&A expenses increased by \$1.1 million or 2.7% from the second quarter and as a percentage of sales remained at 22.0%.

Operating income for the third quarter improved to 13.5% of sales from 13.0% in the second quarter due primarily to another sequential improvement in gross margin as a percent of sales. This performance, which was aided by continuing tight control over operating expenses, together with a decrease in net interest expense associated with a rise in cash balances, resulted in net income rising to \$19.7 million or 10.0% of sales from \$17.9 million or 9.3% for the immediately preceding quarter.

First Nine Months of Fiscal 1994 Compared to the First Nine Months of Fiscal 1993

Net sales of \$570.2 million increased \$82.9 million or approximately 17% from the same period of 1993. The sales increase was due to growth in sales volumes of both system-level ICs and standard linear IC products. Sales of system-level IC products were strongest in Southeast Asia while the largest sales gains for standard products were made through North American distributors and to customers in Japan with sales in Japan aided in part by a weaker average dollar exchange rate. Sales in Europe were essentially flat compared to the first nine months of 1993 due to weakness in European industrial economies.

Gross margin improved to 48.6% of sales for the first nine months of 1994 compared to 47.3% for the first nine months of 1993. This increase resulted principally from improvement in gross margin for system-level IC products as variable manufacturing costs declined and fixed costs were spread over a larger revenue base. Gross margin on all IC products, which include both standard linear and system-level ICs, exceeded 50% of sales.

R&D expense increased 12.5% over the prior year but as a percentage of sales decreased to 13.6%, down from 14.2% in 1993. The growth of SMG&A expense was held to 7.6%, increasing at a much lower rate than sales. As a result, the SMG&A to sales ratio was reduced to 22.2% from 24.1% for the comparable period of 1993. Total operating expenses as a percentage of sales were reduced from 38.3% one year ago to 35.8% consistent with the Company's commitment to maintaining tight control over all costs in order to gain good operating leverage on increased revenues. A key factor in controlling operating expenses has been holding worldwide employment virtually flat at approximately 5,400 employees, despite continuing sales growth.

Operating income of \$72.8 million or 12.8% of sales for the first nine months of 1994 was significantly higher than the \$43.9 million or 9.0% of sales for the same period in 1993 reflecting increased sales, gross margin improvement and expense control.

Nonoperating expenses decreased \$1.0 million, benefiting from increased interest income on a higher level of invested cash. The effective income tax rate increased to 22.8% from 20.8% for the year ago period due to a change in the mix of worldwide income.

Net income rose 73.5% to \$52.8 million or 9.3% of sales compared to \$30.4 million or 6.2% for the first nine months of 1993. Earnings per share improved to \$1.03 from \$0.60 for the year-earlier period.

Liquidity and Capital Resources

At July 30, 1994, cash and cash equivalents and short-term investments totaled \$157.8 million, an increase of \$77.1 million and \$96.5 million from the end of the fourth and third quarters of 1993, respectively. Cash and cash equivalents and short-term investments also increased \$26.4 million over the second quarter of 1994. The increase in cash and cash equivalents and short-term investments compared to the fourth and third quarters of 1993 was due principally to a substantial improvement in cash provided from operations. The increase over the second quarter of 1994 reflected continued generation of operating cash flows in addition to cash generated from the issuance of shares under the Company's employee stock purchase plan. During the third quarter of 1994, the Company invested \$36.4 million of excess cash in short-term investments including commercial paper and certificates of deposit with maturities greater than three months and less than one year.

For the first nine months of fiscal 1994, the Company generated cash flow from operations of \$112.0 million or 19.6% of sales compared to \$53.3 million or 10.9% of sales for the comparable period of 1993. Cash flow from operations generated for the third quarter of 1994 was \$37.0 million or 18.8% of sales versus \$53.7 million or 28.0% of sales for the prior quarter and \$18.8 million or 10.9% of sales for the third quarter of 1993. The increase in operating cash flows compared to the first nine months of 1993 primarily reflected higher net income coupled with a reduction in inventories. The increase in operating cash flows compared to the third quarter of 1993 was due principally to increased net income together with a reduction in accounts receivable. The decrease in cash flow from operations compared to the second quarter of 1994 was mainly attributable to a large decrease in accrued liabilities which was offset in part by a decline in accounts receivable.

Accounts receivable of \$154.3 million increased \$8.7 million or 5.9% from the end of the fourth quarter of 1993 and \$28.1 million or 22.3% from the end of the third quarter of 1993. The primary factors contributing to the nine-month and year-over-year increases were higher sales levels and a greater mix of sales outside the U.S. to regions where standard payment terms are longer. Also contributing to the increase compared to the third quarter of 1993 was a significant increase in receivables from the Company's domestic distributors due to the Company's decision in the fourth quarter of 1993 to eliminate prompt payment discounts previously offered to domestic distributors which altered the distributor payment cycle. Accounts receivable declined \$7.8 million or 4.8% from the second quarter of 1994 and as a percent of annualized quarterly sales was reduced to 19.6% versus 21.1% in the prior quarter. This decrease represented improved collection of receivables.

The increase in accrued liabilities over the third quarter of 1993 was attributable to an increased level of employee compensation, incentive and benefit accruals at the end of the third quarter of 1994.

Cash flow from operations for both the third quarter and first nine months of 1994 was used largely to fund capital expenditures of \$16.1 million and \$42.8 million, respectively. Additions to property, plant and equipment for the fourth quarter of 1994 through the end of the fourth quarter of fiscal 1995 are currently expected to be \$150 million, including capital expenditures associated with the Limerick, Ireland wafer fabrication expansion discussed in the Company's Management Discussion and Analysis of Financial Condition and Results of Operations contained in Form 10-Q for the fiscal quarter ended April 30, 1994. Capital expenditures for the fourth quarter of fiscal 1994 and for all of fiscal 1995 are currently expected to be financed with cash, cash equivalents and short-term investments on hand together with internally generated cash flow from operations.

At July 30, 1994, substantially all of the Company's lines of credit were unused, including its three-year \$80 million credit facility. In the first quarter of 1995, the Company's 7.18%, \$20.0 million loan will mature. Upon maturity, this loan will be repaid in full with cash and cash equivalents on hand.

The Company believes that its strong financial condition, existing sources of liquidity, available capital resources and cash expected to be generated from operations leave it well positioned to obtain the funds required to meet its current and future business requirements.

PART II - OTHER INFORMATION
ANALOG DEVICES, INC.

Item 2. Legal Proceedings

The Company is involved in claims as a defendant in various lawsuits including patent infringement and anti-trust matters as previously disclosed in the Company's Annual Report on Form 10-K for the fiscal year ended October 30, 1993.

The lawsuit brought by Crystal Semiconductor Corporation ("Crystal") against the Company on November 12, 1992 in the United States District Court for the Western District of Texas (Austin Division) for patent infringement (as previously reported in the Company's Annual Report on Form 10-K for the fiscal year ended October 30, 1993 and Quarterly Reports for the quarters ending January 29 and April 30, 1994) has been dismissed. Crystal and the Company have executed a definitive agreement providing a cross-license of technology between the Company and Crystal and the payment of related license fees for technology to be used pursuant to the agreement. The Company does not believe that compliance with the terms of this licensing agreement will have a material adverse effect on the Company's financial position or overall trends in its results of operations.

In the lawsuit brought by Maxim Integrated Products, Inc. ("Maxim") on November 11, 1992 in the United States District Court for the Northern District of California for antitrust and related business tort claims, the court granted the Company's motion for summary judgment on September 7, 1994. The court determined that there were no material factual issues existing and that as a matter of law Maxim was not entitled to relief as to any of the claims asserted. Maxim has a 30-day period to appeal the summary judgment granted by the District Court.

Item 6. Exhibits and reports on Form 8-K

- (a) Exhibits - None
- (b) There were no reports on Form 8-K filed for the three months ended July 30, 1994.

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.

(Registrant)

Date: September 12, 1994

By:/s/ Ray Stata

Ray Stata
Chairman of the Board and
Chief Executive Officer
(Principal Executive Officer)

Date: September 12, 1994

By:/s/ Joseph E. McDonough

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

THIS SCHEDULE CONTAINS FINANCIAL INFORMATION EXTRACTED FROM THE FINANCIAL STATEMENTS OF ANALOG DEVICES, INC. FOR THE QUARTER ENDED JULY 30, 1994, AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

1,000
U.S. DOLLARS

9-MOS		
	OCT-29-1994	
	OCT-31-1993	
	JUL-30-1994	
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		121,336
		36,424
		160,934
		6,618
		134,070
	475,672	
		618,016
	370,105	
	752,132	
162,874		
		80,075
		8,548
0		
		0
		487,988
752,132		
		570,173
	570,173	
		292,991
	292,991	
	204,355	
	0	
	5,455	
	68,394	
	15,571	
52,823		
	0	
	0	
		0
	52,823	
	1.03	
	1.03	