# 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 May 2, 2020**

**OR**

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

**For the transition period from______to______**

**Commission File No. 1-7819**

# Analog Devices, Inc.

*(Exact name of registrant as specified in its charter)*

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

**(781) 329-4700**

*(Registrant's telephone number, including area code)*

*(Former name, former address and former fiscal year, if changed since last report)*

Securities registered pursuant to Section 12(b) of the Act:

| Title of each class | Trading Symbol(s) | Name of each exchange on which registered |
|---|---|---|
| Common Stock $0.16 2/3 par value per share | ADI | Nasdaq Global Select Market |

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 every Interactive Data File required to be submitted 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 such files). Yes ☑ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a 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 | ☐ | 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 May 2, 2020 there were 368,424,615 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)**
**(in thousands, except per share amounts)**

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | May 2, 2020 | May 4, 2019 | May 2, 2020 | May 4, 2019 |
| Revenue | $ 1,317,060 | $ 1,526,602 | $ 2,620,625 | $ 3,067,703 |
| Cost of sales | 470,386 | 492,510 | 925,809 | 993,955 |
| Gross margin | 846,674 | 1,034,092 | 1,694,816 | 2,073,748 |
| Operating expenses: | | | | |
| Research and development | 252,413 | 285,846 | 509,486 | 573,228 |
| Selling, marketing, general and administrative | 141,775 | 163,128 | 341,055 | 330,470 |
| Amortization of intangibles | 107,146 | 107,261 | 214,371 | 214,585 |
| Special charges | 1,320 | 8,162 | 12,456 | 29,944 |
| | 502,654 | 564,397 | 1,077,368 | 1,148,227 |
| Operating income | 344,020 | 469,695 | 617,448 | 925,521 |
| Nonoperating expense (income): | | | | |
| Interest expense | 49,985 | 59,701 | 98,798 | 118,429 |
| Interest income | (1,334) | (2,928) | (3,274) | (5,616) |
| Other, net | 308 | 4,525 | 646 | 4,365 |
| | 48,959 | 61,298 | 96,170 | 117,178 |
| Income before income taxes | 295,061 | 408,397 | 521,278 | 808,343 |
| Provision for income taxes | 27,365 | 40,460 | 49,708 | 85,400 |
| Net income | $ 267,696 | $ 367,937 | $ 471,570 | $ 722,943 |
| Shares used to compute earnings per common share – basic | 368,217 | 369,246 | 368,229 | 368,974 |
| Shares used to compute earnings per common share – diluted | 371,305 | 373,342 | 371,784 | 372,912 |
| Basic earnings per common share | $ 0.73 | $ 0.99 | $ 1.28 | $ 1.95 |
| Diluted earnings per common share | $ 0.72 | $ 0.98 | $ 1.27 | $ 1.93 |

See accompanying notes.

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

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | **May 2, 2020** | **May 4, 2019** | **May 2, 2020** | **May 4, 2019** |
| Net income | $ 267,696 | $ 367,937 | $ 471,570 | $ 722,943 |
| Foreign currency translation adjustments | (6,862) | (3,428) | (7,060) | (112) |
| Change in fair value of available-for-sale securities | — | 5 | — | 15 |
| Change in fair value of derivative instruments designated as cash flow hedges (net of taxes of $19,604, $3,802, $25,066 and $10,183, respectively) | (69,386) | (14,912) | (81,411) | (37,850) |
| Changes in pension plans including transition obligation, net actuarial loss and foreign currency translation adjustments (net of taxes of $157, $63, $317 and $126, respectively) | 1,393 | 335 | 1,647 | 366 |
| Other comprehensive loss | (74,855) | (18,000) | (86,824) | (37,581) |
| Comprehensive income | $ 192,841 | $ 349,937 | $ 384,746 | $ 685,362 |

See accompanying notes.

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

| | May 2, 2020 | November 2, 2019 |
|---|---|---|
| **ASSETS** | | |
| **Current Assets** | | |
| Cash and cash equivalents | $ 784,937 | $ 648,322 |
| Accounts receivable | 588,244 | 635,136 |
| Inventories | 590,268 | 609,886 |
| Prepaid expenses and other current assets | 87,844 | 91,782 |
| Total current assets | 2,051,293 | 1,985,126 |
| **Property, Plant and Equipment, at Cost** | | |
| Land and buildings | 999,063 | 956,099 |
| Machinery and equipment | 2,633,237 | 2,609,493 |
| Office equipment | 84,625 | 85,490 |
| Leasehold improvements | 161,207 | 160,175 |
| | 3,878,132 | 3,811,257 |
| Less accumulated depreciation and amortization | 2,688,800 | 2,591,268 |
| Net property, plant and equipment | 1,189,332 | 1,219,989 |
| **Other Assets** | | |
| Other investments | 76,025 | 77,324 |
| Goodwill | 12,253,670 | 12,256,880 |
| Intangible assets, net | 3,928,902 | 4,217,224 |
| Deferred tax assets | 1,553,902 | 1,582,382 |
| Other assets | 297,814 | 53,716 |
| Total other assets | 18,110,313 | 18,187,526 |
| | $ 21,350,938 | $ 21,392,641 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| **Current Liabilities** | | |
| Accounts payable | $ 194,211 | $ 225,270 |
| Income taxes payable | 151,691 | 187,879 |
| Debt, current | 448,945 | 299,667 |
| Accrued liabilities | 787,155 | 795,816 |
| Total current liabilities | 1,582,002 | 1,508,632 |
| **Non-current liabilities** | | |
| Long-term debt | 5,142,223 | 5,192,252 |
| Deferred income taxes | 2,000,644 | 2,088,212 |
| Income taxes payable | 597,166 | 654,420 |
| Other non-current liabilities | 438,045 | 239,937 |
| Total non-current liabilities | 8,178,078 | 8,174,821 |
| 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, 368,424,615 shares outstanding (368,302,369 on November 2, 2019) | 61,405 | 61,385 |
| Capital in excess of par value | 4,861,013 | 4,936,349 |
| Retained earnings | 6,945,442 | 6,899,253 |
| Accumulated other comprehensive loss | (277,002) | (187,799) |
| Total shareholders' equity | 11,590,858 | 11,709,188 |
| | $ 21,350,938 | $ 21,392,641 |

See accompanying notes.

**ANALOG DEVICES, INC.**
**CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**
**(Unaudited)**
**(in thousands)**

| | Three Months Ended May 2, 2020 | | | | |
|---|---|---|---|---|---|
| | Common Stock | | Capital in Excess of | Retained | Accumulated Other Comprehensive |
| | Shares | Amount | Par Value | Earnings | Loss |
| **BALANCE, FEBRUARY 1, 2020** | 368,220 | $ 61,371 | $ 4,923,947 | $ 6,906,346 | $ (202,147) |
| Net income | | | | 267,696 | |
| Dividends declared and paid - $0.62 per share | | | | (228,600) | |
| Issuance of stock under stock plans and other | 1,347 | 224 | 14,560 | | |
| Stock-based compensation expense | | | 35,900 | | |
| Other comprehensive loss | | | | | (74,855) |
| Common stock repurchased | (1,142) | (190) | (113,394) | | |
| **BALANCE, MAY 2, 2020** | 368,425 | $ 61,405 | $ 4,861,013 | $ 6,945,442 | $ (277,002) |

| | Six Months Ended May 2, 2020 | | | | |
|---|---|---|---|---|---|
| | Common Stock | | Capital in Excess of | Retained | Accumulated Other Comprehensive |
| | Shares | Amount | Par Value | Earnings | Loss |
| **BALANCE, NOVEMBER 2, 2019** | 368,302 | $ 61,385 | $ 4,936,349 | $ 6,899,253 | $ (187,799) |
| Effect of Accounting Standards Update 2018-02 | | | | 2,379 | (2,379) |
| Net income | | | | 471,570 | |
| Dividends declared and paid - $1.16 per share | | | | (427,760) | |
| Issuance of stock as charitable contribution | 336 | 56 | 39,944 | | |
| Issuance of stock under stock plans and other | 1,838 | 306 | 30,591 | | |
| Stock-based compensation expense | | | 73,401 | | |
| Other comprehensive loss | | | | | (86,824) |
| Common stock repurchased | (2,051) | (342) | (219,272) | | |
| **BALANCE, MAY 2, 2020** | 368,425 | $ 61,405 | $ 4,861,013 | $ 6,945,442 | $ (277,002) |

See accompanying notes.

**ANALOG DEVICES, INC.**
**CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**
**(Unaudited)**
**(in thousands)**

| | Three Months Ended May 4, 2019 | | | | |
|---|---|---|---|---|---|
| | Common Stock | | Capital in Excess of Par Value | Retained Earnings | Accumulated Other Comprehensive Loss |
| | Shares | Amount | | | |
| **BALANCE, FEBRUARY 2, 2019** | 368,314 | $ 61,387 | $ 5,111,058 | $ 6,491,013 | $ (78,021) |
| Net income | | | | 367,937 | |
| Dividends declared and paid - $0.54 per share | | | | (199,501) | |
| Issuance of stock under stock plans and other | 2,369 | 395 | 67,283 | | |
| Stock-based compensation expense | | | 40,229 | | |
| Other comprehensive loss | | | | | (18,000) |
| Common stock repurchased | (922) | (154) | (101,368) | | |
| **BALANCE, MAY 4, 2019** | 369,761 | $ 61,628 | $ 5,117,202 | $ 6,659,449 | $ (96,021) |

| | Six Months Ended May 4, 2019 | | | | |
|---|---|---|---|---|---|
| | Common Stock | | Capital in Excess of Par Value | Retained Earnings | Accumulated Other Comprehensive Loss |
| | Shares | Amount | | | |
| **BALANCE, NOVEMBER 3, 2018 (1)** | 370,160 | $ 61,694 | $ 5,282,222 | $ 5,982,697 | $ (58,440) |
| Effect of Accounting Standards Update 2016-16 | | | | 331,026 | |
| Net income | | | | 722,943 | |
| Dividends declared and paid - $1.02 per share | | | | (377,217) | |
| Issuance of stock under stock plans and other | 3,140 | 524 | 86,383 | | |
| Stock-based compensation expense | | | 76,622 | | |
| Other comprehensive loss | | | | | (37,581) |
| Common stock repurchased | (3,539) | (590) | (328,025) | | |
| **BALANCE, MAY 4, 2019** | 369,761 | $ 61,628 | $ 5,117,202 | $ 6,659,449 | $ (96,021) |

(1) Balances have been restated to reflect the full retrospective adoption of Accounting Standards Update ASU 2014-09, *Revenue from Contracts with Customers*, adopted by the Company in fiscal 2019.

See accompanying notes.

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

| | Six Months Ended | |
|---|---|---|
| | **May 2, 2020** | **May 4, 2019** |
| Cash flows from operating activities: | | |
| Net income | $ 471,570 | $ 722,943 |
| Adjustments to reconcile net income to net cash provided by operations: | | |
| Depreciation | 119,124 | 117,435 |
| Amortization of intangibles | 288,120 | 284,525 |
| Stock-based compensation expense | 73,401 | 76,622 |
| Non-cash portion of special charge | — | 4,367 |
| Deferred income taxes | (35,390) | (21,843) |
| Non-cash contribution to charitable foundation | 40,000 | — |
| Other non-cash activity | 3,801 | 18,429 |
| Changes in operating assets and liabilities | (181,937) | (159,829) |
| Total adjustments | 307,119 | 319,706 |
| Net cash provided by operating activities | 778,689 | 1,042,649 |
| Cash flows from investing activities: | | |
| Additions to property, plant and equipment | (115,000) | (166,202) |
| Changes in other assets | (1,284) | (4,585) |
| Net cash used for investing activities | (116,284) | (170,787) |
| Cash flows from financing activities: | | |
| Proceeds from debt | 395,646 | — |
| Proceeds from revolver | 350,000 | 75,000 |
| Payments on revolver | (350,000) | (75,000) |
| Debt repayments | (300,000) | (350,000) |
| Dividend payments to shareholders | (427,760) | (377,217) |
| Repurchase of common stock | (219,614) | (328,615) |
| Proceeds from employee stock plans | 30,897 | 86,907 |
| Changes in other financing activities | (4,451) | (6,144) |
| Net cash used for financing activities | (525,282) | (975,069) |
| Effect of exchange rate changes on cash | (508) | 217 |
| Net increase (decrease) in cash and cash equivalents | 136,615 | (102,990) |
| Cash and cash equivalents at beginning of period | 648,322 | 816,591 |
| Cash and cash equivalents at end of period | $ 784,937 | $ 713,601 |

See accompanying notes.

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

**Note 1 – Basis of Presentation**

In the opinion of management, the information furnished in the accompanying condensed consolidated financial statements reflects all normal recurring adjustments that are necessary to fairly state the results for these interim periods and should be read in conjunction with Analog Devices, Inc.'s (the Company) Annual Report on Form 10-K for the fiscal year ended November 2, 2019 (fiscal 2019) and related notes. The results of operations for the interim periods shown in this report are not necessarily indicative of the results that may be expected for the fiscal year ending October 31, 2020 (fiscal 2020) or any future period.

The Company has a 52-53 week fiscal year that ends on the Saturday closest to the last day in October. Certain amounts reported in previous periods have been reclassified to conform to the fiscal 2020 presentation.

**Note 2 – Leases**

In the first quarter of fiscal 2020, the Company adopted Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)* (ASU 2016-02) using the modified retrospective approach. Results for fiscal 2020 are presented under ASU 2016-02, while prior period consolidated financial statements have not been adjusted and continue to be presented under the accounting standard in effect at that time. See Note 13, *New Accounting Pronouncements* of these Notes to Condensed Consolidated Financial Statements for further detail on the adoption of this standard, including the initial adoption values.

The Company enters into operating leases which primarily relate to certain facilities. The Company determines whether an arrangement is or contains a lease based on the unique facts and circumstances present at the inception of an arrangement. Lease assets represent the Company's right to use underlying assets for the lease term, and lease liabilities represent the obligation to make lease payments over the lease term. At lease commencement, leases are evaluated for classification, and assets and liabilities are recognized based on the present value of lease payments over the lease term. The interest rate implicit in lease contracts is typically not readily determinable. As such, the Company utilizes the appropriate incremental borrowing rate, which is the rate incurred to borrow on a collateralized basis over a similar term at an amount equal to the lease payments in a similar economic environment. Certain adjustments to the right-of-use asset may be required for items such as initial direct costs paid or incentives received, such as construction allowances from landlords and/or rent abatements subsequent to taking possession of the leased property. The Company has agreements with lease and non-lease components, which are accounted for as a single lease component. Non-lease components may include real estate taxes, insurance, maintenance, parking and other operating costs. If these costs are variable costs they are not included in the measurement of the right-of-use assets and lease liabilities, but are expensed when the event determining the amount of variable consideration to be paid occurs. The Company's leases have remaining lease terms of less than one year to approximately twenty years, some of which may include options to extend the initial term of the lease. These options are included in determining the initial lease term at lease commencement only if the Company is reasonably certain to exercise the option. Lease costs are recognized on a straight-line basis as lease expense over the lease term. For leases with terms of twelve months or less the Company recognizes the related lease payments as expense either straight-line over the lease term or as incurred depending on whether the lease payments are fixed or variable.

The following table presents supplemental balance sheet information related to our operating leases:

| | May 2, 2020 |
|---|---|
| **Assets** | |
| Operating lease right-of-use assets in *Other assets* | $ 243,695 |
| **Liabilities** | |
| Operating lease liabilities in *Accrued liabilities* | $ 36,660 |
| Operating lease liabilities in *Other non-current liabilities* | $ 279,566 |

Details of the Company's operating leases are as follows:

| | Three Months Ended May 2, 2020 | Six Months Ended May 2, 2020 |
|---|---|---|
| Lease expense | $ 11,445 | $ 22,136 |
| **Cash paid for amounts included in the measurement of operating lease liabilities** | | |
| Operating cash flows from operating leases | $ 11,536 | $ 22,935 |
| Lease assets obtained in exchange for new lease liabilities | $ 20,895 | $ 25,730 |
| Weighted average remaining lease term | 9.3 years | 9.3 years |
| Weighted average discount rate | 3.3 % | 3.3 % |

The following table presents the maturities of our operating lease liabilities as of May 2, 2020:

| Fiscal year | Operating Leases |
|---|---|
| Remainder of 2020 | $ 23,306 |
| 2021 | 44,536 |
| 2022 | 39,086 |
| 2023 | 35,726 |
| 2024 | 35,124 |
| 2025 | 33,038 |
| Thereafter | 158,091 |
| **Total future minimum operating lease payments** | **368,907** |
| Less: imputed interest | (52,681) |
| **Present value of operating lease liabilities** | **$ 316,226** |

As of May 2, 2020, the Company has additional leases for office space and equipment, which have not yet commenced, of approximately $16.6 million. These leases will commence during fiscal 2020, with lease terms of 10 to 25 years.

**Note 3 – Stock-Based Compensation and Shareholders' Equity**

A summary of the Company’s stock option activity as of May 2, 2020 and changes during the six-month period then ended is presented below:

| | Options Outstanding (in thousands) | Weighted-Average Exercise Price Per Share | Weighted-Average Remaining Contractual Term in Years | Aggregate Intrinsic Value |
|---|---|---|---|---|
| **Options outstanding at November 2, 2019** | 5,183 | $65.97 | | |
| Options granted | 359 | $94.41 | | |
| Options exercised | (583) | $52.97 | | |
| Options forfeited | (63) | $81.86 | | |
| **Options outstanding at May 2, 2020** | 4,896 | $69.37 | 5.9 | $169,549 |
| **Options exercisable at May 2, 2020** | 3,272 | $60.59 | 4.9 | $141,272 |
| **Options vested or expected to vest at May 2, 2020 (1)** | 4,770 | $68.80 | 5.8 | $167,821 |

(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.

During the six-month periods ended May 2, 2020 and May 4, 2019, 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 $35.3 million and $99.7 million, respectively.

A summary of the Company’s restricted stock unit/award activity as of May 2, 2020 and changes during the six-month period then ended is presented below:

| | Restricted Stock Units/Awards Outstanding (in thousands) | Weighted-Average Grant-Date Fair Value Per Share |
|---|---|---|
| **Restricted stock units/awards outstanding at November 2, 2019** | 4,396 | $87.18 |
| Units/Awards granted | 1,375 | $86.69 |
| Restrictions lapsed | (1,248) | $85.86 |
| Forfeited | (155) | $87.17 |
| **Restricted stock units/awards outstanding at May 2, 2020** | 4,368 | $87.56 |

As of May 2, 2020, there was $349.4 million of total unrecognized compensation cost related to unvested stock-based awards comprised of stock options and restricted stock units/awards. That cost is expected to be recognized over a weighted-average period of 1.5 years. The total grant-date fair values of awards that vested during the six-month periods ended May 2, 2020 and May 4, 2019 were approximately $113.4 million and $106.4 million, respectively.

Total stock-based compensation expense recognized was as follows:

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | May 2, 2020 | May 4, 2019 | May 2, 2020 | May 4, 2019 |
| Cost of sales | $ 4,356 | $ 5,389 | $ 8,920 | $ 10,473 |
| Research and development | 18,400 | 19,567 | 36,005 | 38,492 |
| Selling, marketing, general and administrative | 13,144 | 15,273 | 28,476 | 27,657 |
| Total stock-based compensation expense | $ 35,900 | $ 40,229 | $ 73,401 | $ 76,622 |

As of May 2, 2020 and November 2, 2019, the Company capitalized $5.9 million and $6.8 million, respectively, of stock-based compensation in Inventories on the Condensed Consolidated Balance Sheets.

*Common Stock Repurchases*

As of May 2, 2020, the Company had repurchased a total of approximately 156.1 million shares of its common stock for approximately $6.3 billion under the Company's share repurchase program. As of May 2, 2020, an additional $1.9 billion remains available for repurchase of shares under the current authorized program. The Company also repurchases shares in settlement of employee tax withholding obligations due upon the vesting of restricted stock units/awards or the exercise of stock options. Given the current macroeconomic environment, the Company has temporarily suspended common stock repurchases under the authorized program. Future repurchases of common stock will be dependent upon our financial position, results of operations, outlook, liquidity, and other factors deemed relevant by the Company.

*Analog Devices Foundation*

During the first quarter of fiscal 2020, the Company contributed 335,654 shares of its common stock to the Analog Devices Foundation. As of the date of the charitable contribution the shares had a fair value of approximately $40.0 million. This expense was recorded in Selling, marketing, general and administrative expense in the Condensed Consolidated Statement of Income.

**Note 4 – Accumulated Other Comprehensive (Loss) Income**

The following table provides the changes in accumulated other comprehensive (loss) income (AOCI) by component and the related tax effects during the first six months of fiscal 2020.

| | Foreign currency translation adjustment | Unrealized holding gains (losses) on derivatives | Pension plans | Total |
|---|---|---|---|---|
| **November 2, 2019** | $ (30,076) | $ (118,015) | $ (39,708) | $ (187,799) |
| Other comprehensive loss before reclassifications | (7,060) | (109,435) | 682 | (115,813) |
| Amounts reclassified out of other comprehensive income (loss) | — | 2,958 | 1,282 | 4,240 |
| Tax effects | — | 25,066 | (317) | 24,749 |
| Other comprehensive (loss) income | (7,060) | (81,411) | 1,647 | (86,824) |
| Effect of Accounting Standards Update 2018-02 | — | (2,379) | — | (2,379) |
| **May 2, 2020** | $ (37,136) | $ (201,805) | $ (38,061) | $ (277,002) |

The amounts reclassified out of AOCI into the Condensed Consolidated Statements of Income and the Condensed Consolidated Statements of Shareholders' Equity with presentation location during each period were as follows:

| | Three Months Ended | | Six Months Ended | | |
|---|---|---|---|---|---|
| **Comprehensive Income Component** | **May 2, 2020** | **May 4, 2019** | **May 2, 2020** | **May 4, 2019** | **Location** |
| Unrealized holding losses (gains) on derivatives | | | | | |
| Currency forwards | $ 160 | $ 478 | $ 80 | $ 1,197 | Cost of sales |
| | 488 | 770 | 866 | 1,618 | Research and development |
| | 552 | 956 | 1,084 | 1,871 | Selling, marketing, general and administrative |
| Interest rate derivatives | 464 | 464 | 928 | 510 | Interest expense |
| | 1,664 | 2,668 | 2,958 | 5,196 | Total before tax |
| | (197) | (393) | (567) | (803) | Tax |
| Effect of Accounting Standards Update 2018-02 | — | — | (2,379) | — | Retained earnings |
| | $ 1,467 | $ 2,275 | $ 12 | $ 4,393 | Net of tax |
| | | | | | |
| Amortization of pension components included in the computation of net periodic pension cost | | | | | |
| Actuarial losses | 634 | 254 | 1,282 | 511 | |
| | (157) | (63) | (317) | (126) | Tax |
| | $ 477 | $ 191 | $ 965 | $ 385 | Net of tax |
| | | | | | |
| Total amounts reclassified out of AOCI, net of tax | $ 1,944 | $ 2,466 | $ 977 | $ 4,778 | |

The Company estimates that settlements of forward foreign currency derivative instruments included in AOCI that will be reclassified into earnings will be immaterial within the next twelve months.

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

The Company utilized the two-class method for calculating earnings per share because certain restricted stock awards granted were participating securities containing non-forfeitable rights to receive dividend equivalents. 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. The following table sets forth the computation of basic and diluted earnings per share:

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | May 2, 2020 | May 4, 2019 | May 2, 2020 | May 4, 2019 |
| Net Income | $ 267,696 | $ 367,937 | $ 471,570 | $ 722,943 |
| Less: income allocated to participating securities* | — | 908 | — | 1,932 |
| Net income allocated to common stockholders | $ 267,696 | $ 367,029 | $ 471,570 | $ 721,011 |
| Basic shares: | | | | |
| Weighted-average shares outstanding | 368,217 | 369,246 | 368,229 | 368,974 |
| Earnings per common share basic: | $ 0.73 | $ 0.99 | $ 1.28 | $ 1.95 |
| Diluted shares: | | | | |
| Weighted-average shares outstanding | 368,217 | 369,246 | 368,229 | 368,974 |
| Assumed exercise of common stock equivalents | 3,088 | 4,096 | 3,555 | 3,938 |
| Weighted-average common and common equivalent shares | 371,305 | 373,342 | 371,784 | 372,912 |
| Earnings per common share diluted: | $ 0.72 | $ 0.98 | $ 1.27 | $ 1.93 |
| Anti-dilutive shares related to: | | | | |
| Outstanding stock-based awards | 681 | 432 | 539 | 1,222 |

*The amounts in the three-month and six-month periods ended May 2, 2020 are not material.

## Note 6 – Special Charges

The following table is a quarterly roll-forward from November 2, 2019 to May 2, 2020 of the employee separation and exit cost accruals established related to existing restructuring actions:

| Accrued Restructuring | Closure of Manufacturing Facilities | Reduction of Operating Costs Action | Early Retirement Action | Repositioning Action |
|---|---|---|---|---|
| **Balance at November 2, 2019** | $ 50,401 | $ 940 | $ 4,583 | $ 58,895 |
| First quarter fiscal 2020 special charges | 1,982 | — | — | 9,154 |
| Severance and other payments | (908) | (282) | (189) | (29,597) |
| Effect of foreign currency on accrual | (30) | — | — | (21) |
| **Balance at February 1, 2020** | $ 51,445 | $ 658 | $ 4,394 | $ 38,431 |
| Second quarter fiscal 2020 special charges | 1,320 | — | — | — |
| Severance and other payments | (2,564) | (148) | (179) | (15,025) |
| Effect of foreign currency on accrual | (17) | — | — | (127) |
| **Balance at May 2, 2020** | $ 50,184 | $ 510 | $ 4,215 | $ 23,279 |
| **Current - accrued liabilities** | $ 27,633 | $ 510 | $ 4,215 | $ 23,279 |
| **Other non-current liabilities** | $ 22,551 | $ — | $ — | $ — |

*Repositioning Action*

The Company recorded special charges of $97.2 million on a cumulative basis through May 2, 2020, as a result of organizational initiatives to reposition the Company's global workforce skill set to align with the Company's long-term strategic plan. Approximately $83.0 million of the total charges was for severance and fringe benefit costs in accordance with either the Company's ongoing benefit plan or statutory requirements for the impacted engineering and selling, marketing, general and administrative (SMG&A) employees. The remaining $14.2 million of the charges were recorded in fiscal 2019 and related to the write-off of acquired intellectual property due to the Company's decision to discontinue certain product development strategies.

*Closure of Manufacturing Facilities*

The Company recorded special charges of $55.3 million on a cumulative basis through May 2, 2020 as a result of its decision to consolidate certain wafer and test facility operations acquired as part of the acquisition of Linear Technology Corporation (Linear). The Company plans to close its Hillview wafer fabrication facility located in Milpitas, California and its Singapore test facility in the fiscal year ending October 30, 2021. The Company intends to transfer Hillview wafer fabrication production to its other internal facilities and to external foundries. In addition, the Company is planning to transition testing operations currently handled in its Singapore facility to its facilities in Penang, Malaysia and the Philippines, in addition to its outsourced assembly and test partners. The special charges include severance and fringe benefit costs, in accordance with the Company's ongoing benefit plan or statutory requirements at foreign locations, one-time termination benefits for the impacted manufacturing, engineering and SMG&A employees and other exit costs. These one-time termination benefits are being recognized over the future service period required for employees to earn these benefits.

**Note 7 – Segment Information**

The Company designs, develops, manufactures and markets a broad range of integrated circuits. The Company operates and tracks its results in one reportable segment based on the aggregation of nine operating segments, one of which was added in the three-months ended May 2, 2020 as a result of a continued refinement of the Company's organizational structure. Due to the current macroeconomic environment, in the second quarter of fiscal 2020, the Company elected to perform a quantitative goodwill impairment analysis for one of its reporting units. As a result of this analysis, management concluded that the reporting unit’s fair value exceeded its carrying amount as of the May 2, 2020 assessment date and no risk of impairment existed.

*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 and the Company's methodology evolve and improve, the categorization of products by end market can vary over time. When this occurs, the Company reclassifies revenue by end market for prior periods. Such reclassifications typically do not materially change the sizing of, or the underlying trends of results within, each end market.

| | Three Months Ended | | | | |
|---|---|---|---|---|---|
| | May 2, 2020 | | | May 4, 2019 | |
| | Revenue | % of Revenue* | Y/Y% | Revenue | % of Revenue* |
| Industrial | $ 710,760 | 54 % | (8) % | $ 771,359 | 51 % |
| Communications | 276,420 | 21 % | (24) % | 363,457 | 24 % |
| Automotive | 182,383 | 14 % | (23) % | 236,011 | 15 % |
| Consumer | 147,497 | 11 % | (5) % | 155,775 | 10 % |
| **Total revenue** | **$ 1,317,060** | **100 %** | **(14) %** | **$ 1,526,602** | **100 %** |

| | Six Months Ended | | | | |
|---|---|---|---|---|---|
| | May 2, 2020 | | | May 4, 2019 | |
| | Revenue | % of Revenue* | Y/Y% | Revenue | % of Revenue* |
| Industrial | $ 1,395,113 | 53 % | (7) % | $ 1,503,331 | 49 % |
| Communications | 517,253 | 20 % | (27) % | 712,014 | 23 % |
| Automotive | 388,630 | 15 % | (19) % | 480,268 | 16 % |
| Consumer | 319,629 | 12 % | (14) % | 372,090 | 12 % |
| **Total revenue** | **$ 2,620,625** | **100 %** | **(15) %** | **$ 3,067,703** | **100 %** |

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

*Revenue by Sales Channel*

The following table summarizes revenue by channel. The Company sells its products globally through a direct sales force, third party distributors, independent sales representatives and via its website. Distributors are customers that buy products with the intention of reselling them. Direct customers are non-distributor customers and consist primarily of original equipment manufacturers (OEMs). Other customers include the U.S. government, government prime contractors and certain commercial customers for which revenue is recorded over time.

| | Three Months Ended | | | |
|---|---|---|---|---|
| | May 2, 2020 | | May 4, 2019 | |
| Channel | Revenue | % of Revenue* | Revenue | % of Revenue* |
| Distributors | $ 750,388 | 57 % | $ 871,510 | 57 % |
| Direct customers | 546,051 | 41 % | 634,834 | 42 % |
| Other | 20,621 | 2 % | 20,258 | 1 % |
| **Total revenue** | **$ 1,317,060** | **100 %** | **$ 1,526,602** | **100 %** |

| | Six Months Ended | | | |
|---|---|---|---|---|
| | May 2, 2020 | | May 4, 2019 | |
| Channel | Revenue | % of Revenue* | Revenue | % of Revenue* |
| Distributors | $ 1,497,949 | 57 % | $ 1,700,753 | 55 % |
| Direct customers | 1,077,382 | 41 % | 1,330,323 | 43 % |
| Other | 45,294 | 2 % | 36,627 | 1 % |
| **Total revenue** | **$ 2,620,625** | **100 %** | **$ 3,067,703** | **100 %** |

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

**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 were accounted for at fair value on a recurring basis as of May 2, 2020 and November 2, 2019. The tables exclude cash on hand and assets and liabilities that are measured at historical cost or any basis other than fair value. As of May 2, 2020 and November 2, 2019, the Company held $193.9 million and $231.4 million, respectively, of cash and held-to-maturity investments that were excluded from the tables below.

| | May 2, 2020 | | |
|---|---|---|---|
| | Fair Value measurement at Reporting Date using: | | |
| | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Total |
| **Assets** | | | |
| **Cash equivalents:** | | | |
| Available-for-sale: | | | |
| Government and institutional money market funds | $ 591,014 | $ — | $ 591,014 |
| **Other assets:** | | | |
| Deferred compensation investments | 47,857 | — | 47,857 |
| **Total assets measured at fair value** | $ 638,871 | $ — | $ 638,871 |
| **Liabilities** | | | |
| Forward foreign currency exchange contracts (1) | $ — | $ 1,614 | $ 1,614 |
| Interest rate derivatives | — | 245,135 | 245,135 |
| **Total liabilities measured at fair value** | $ — | $ 246,749 | $ 246,749 |

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

| | November 2, 2019 | | |
|---|---|---|---|
| | Fair Value measurement at Reporting Date using: | | |
| | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Total |
| **Assets** | | | |
| **Cash equivalents:** | | | |
| Available-for-sale: | | | |
| Government and institutional money market funds | $ 416,890 | $ — | $ 416,890 |
| **Other assets:** | | | |
| Deferred compensation investments | 48,302 | — | 48,302 |
| **Total assets measured at fair value** | $ 465,192 | $ — | $ 465,192 |
| **Liabilities** | | | |
| Interest rate derivatives | $ — | $ 138,798 | $ 138,798 |
| **Total liabilities measured at fair value** | $ — | $ 138,798 | $ 138,798 |

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

***Cash equivalents*** — 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.

***Interest rate derivatives*** — The fair value of the interest rate derivatives is estimated using a discounted cash flow analysis based on the contractual terms of the derivative.

***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.

***Financial Instruments Not Recorded at Fair Value on a Recurring Basis***

The table below presents the estimated fair value of certain financial instruments not recorded at fair value on a recurring basis. The carrying amounts of the term loan approximates fair value. The term loan is classified as a Level 2 measurement according to the fair value hierarchy. The fair values of the senior unsecured notes are obtained from broker prices and are classified as Level 1 measurements according to the fair value hierarchy.

| | May 2, 2020 | | November 2, 2019 | |
|---|---|---|---|---|
| | Principal Amount Outstanding | Fair Value | Principal Amount Outstanding | Fair Value |
| 3-Year term loan, due March 2022 | $ 925,000 | $ 925,000 | $ 925,000 | $ 925,000 |
| 2.85% Senior unsecured notes, due March 2020 | — | — | 300,000 | 300,872 |
| 2.95% Senior unsecured notes, due January 2021 | 450,000 | 455,318 | 450,000 | 454,634 |
| 2.50% Senior unsecured notes, due December 2021 | 400,000 | 407,509 | 400,000 | 402,591 |
| 2.875% Senior unsecured notes, due June 2023 | 500,000 | 522,327 | 500,000 | 511,190 |
| 3.125% Senior unsecured notes, due December 2023 | 550,000 | 579,374 | 550,000 | 567,159 |
| 2.95% Senior unsecured notes, due April 2025 | 400,000 | 415,563 | — | — |
| 3.90% Senior unsecured notes, due December 2025 | 850,000 | 927,760 | 850,000 | 914,567 |
| 3.50% Senior unsecured notes, due December 2026 | 900,000 | 973,598 | 900,000 | 940,192 |
| 4.50% Senior unsecured notes, due December 2036 | 250,000 | 292,461 | 250,000 | 270,891 |
| 5.30% Senior unsecured notes, due December 2045 | 400,000 | 535,502 | 400,000 | 491,439 |
| Total debt | $ 5,625,000 | $ 6,034,412 | $ 5,525,000 | $ 5,778,535 |

**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 British Pound, Philippine Peso, the Japanese Yen. Derivative instruments are employed to eliminate or minimize certain foreign currency exposures that can be confidently identified and quantified. 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 matched with the underlying exposures at inception and designated and documented as cash flow hedges. They are qualitatively evaluated for effectiveness on a quarterly basis. The gain or loss on the derivative is recorded as a component of AOCI in shareholders' equity and is reclassified into earnings in the same line item on the Consolidated Statements of Income as the impact of the hedged transaction in the same period during which the hedged transaction affects earnings.

The total notional amounts 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 May 2, 2020 and November 2, 2019 were $195.1 million and $191.1 million, respectively. The fair values of forward foreign currency derivative instruments designated as hedging instruments in the Company's Condensed Consolidated Balance Sheets as of May 2, 2020 and November 2, 2019 were as follows:

| | | Fair Value At | |
|---|---|---|---|
| | Balance Sheet Location | May 2, 2020 | November 2, 2019 |
| Forward foreign currency exchange contracts | Prepaid expenses and other current assets | $ — | $ 65 |
| Forward foreign currency exchange contracts | Accrued liabilities | $ 1,176 | $ — |

As of May 2, 2020 and November 2, 2019, the total notional amounts of undesignated hedges related to forward foreign currency exchange contracts were $14.9 million and $55.3 million, respectively. The fair values of these hedging instruments in the Company's Condensed Consolidated Balance Sheets were immaterial as of May 2, 2020 and November 2, 2019.

All 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 Sheets on a net basis. As of May 2, 2020 and November 2, 2019, none of the netting arrangements involved collateral.

The following table presents the gross amounts of the Company's forward foreign currency exchange contract derivative assets and liabilities and the net amounts recorded in the Company's Condensed Consolidated Balance Sheets:

| | May 2, 2020 | November 2, 2019 |
|---|---|---|
| Gross amount of recognized liabilities | $ (3,185) | $ (2,828) |
| Gross amounts of recognized assets offset in the Condensed Consolidated Balance Sheets | 1,571 | 2,828 |
| Net liabilities presented in the Condensed Consolidated Balance Sheets | $ (1,614) | $ — |

As of May 2, 2020 and November 2, 2019, the fair values of the interest rate swap agreement designated as a cash flow hedge were $245.1 million and $138.8 million, respectively, and are included within Accrued liabilities in the Company's Condensed Consolidated Balance Sheets.

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 May 2, 2020 and November 2, 2019, nonperformance is not perceived to be a material 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.

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

**Note 10 – Debt**

*Term Loan Agreement*

On June 28, 2019, the Company entered into a term loan credit agreement (Term Loan Agreement) with the Company as the borrower and JPMorgan Chase Bank, N.A. as administrative agent and the other banks identified therein as lenders, for an unsecured term loan facility in the principal amount of $1.25 billion, maturing on March 10, 2022. Loans under the term loan facility bear interest, at the Company’s option, at either a rate equal to (a) the Adjusted LIBO Rate (as defined in the Term Loan Agreement) plus a margin based on the Company’s debt rating or (b) the Base Rate (defined as the highest of (i) the prime rate, (ii) the NYFRB Rate (as defined in the Term Loan Agreement) plus .50%, and (iii) one month Adjusted LIBO Rate plus 1.00%) plus a margin based on the Company’s debt rating.

The Term Loan Agreement contains customary representations and warranties, affirmative and negative covenants and events of default applicable to the Company and its subsidiaries. The events of default include, among others, nonpayment of principal, interest, fees or other amounts, failure to perform certain covenants, cross-defaults to certain other indebtedness, insolvency or bankruptcy, customary ERISA defaults or the occurrence of a change of control. The negative covenants include limitations on liens, indebtedness of non-guarantor subsidiaries and mergers and other fundamental changes, among others. The Term Loan Agreement also requires the Company to maintain a consolidated leverage ratio of total consolidated funded debt to consolidated EBITDA (earnings before interest, taxes, depreciation, and amortization) for a trailing twelve-month period of not greater than 3.5 to 1.0, assuming the Company does not undertake any significant acquisitions, mergers, and other fundamental changes. Should such a change occur, the Company may be authorized to increase the covenant back to 4.0 to 1.0.  As of May 2, 2020, the Company was compliant with these covenants.

*Senior Notes*

On April 8, 2020, in an underwritten public offering, the Company issued its first green bond consisting of $400.0 million aggregate principal amount of 2.95% senior unsecured notes due April 1, 2025 (the 2025 Notes). Interest on the 2025 Notes is payable on April 1 and October 1 of each year, beginning on October 1, 2020. The Company intends to use the net proceeds of $395.6 million from the green bond offering to finance or refinance, in whole or in part, one or more new or existing eligible projects involving renewable energy, energy efficiency, green buildings, sustainable water and wastewater management, pollution prevention and control, clean transportation or eco-efficient and/or circular economy adapted products, production technologies and processes. Debt discount and underwriting fees will be amortized over the life of the debt. At any time prior to March 1, 2025, the Company may, at its option, redeem some or all of the 2025 Notes at a redemption price equal to the greater of 100% of the principal amount of the 2025 Notes being redeemed and the make-whole premium, plus accrued and unpaid interest on the 2025 Notes being redeemed, if any, to but excluding the date of redemption. The 2025 Notes are unsecured and rank equally in right of payment with all of the Company's other existing and future unsecured senior indebtedness. The 2025 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 May 2, 2020, the Company was in compliance with these covenants.

On March 12, 2020, the Company repaid $300.0 million of principal on its 2.85% senior unsecured notes that were contractually due in March 2020. This obligation has been paid in full and is no longer outstanding.

*Revolving Credit Agreement*

On June 28, 2019, the Company entered into a second amended and restated revolving credit agreement (Revolving Credit Agreement) with the Company as borrower and Bank of America, N.A. as administrative agent and the other banks identified therein as lenders, which further amended and restated its amended and restated revolving credit agreement dated as of September 23, 2016. The Revolving Credit Agreement provides for a five year unsecured revolving credit facility in an aggregate principal amount of up to $1.25 billion, expiring on June 28, 2024. In March 2020, the Company borrowed $350.0 million under this revolving credit facility and utilized the proceeds for the repayment of existing indebtedness and working capital requirements. The Company repaid the $350.0 million plus interest of $0.6 million in April 2020.

The Revolving Credit Agreement contains the customary representations and warranties, and affirmative and negative covenants and events of default applicable to the Company and its subsidiaries. As of May 2, 2020, the Company was in compliance with these covenants.

**Note 11 – Inventories**

Inventories at May 2, 2020 and November 2, 2019 were as follows:

| | May 2, 2020 | November 2, 2019 |
|---|---|---|
| Raw materials | $ 34,264 | $ 35,447 |
| Work in process | 441,580 | 400,409 |
| Finished goods | 114,424 | 174,030 |
| Total inventories | $ 590,268 | $ 609,886 |

**Note 12 – Income Taxes**

The Company’s effective tax rates for the three- and six-month periods ended May 2, 2020 and May 4, 2019 were below the U.S. statutory tax rate of 21.0%, due to lower statutory tax rates applicable to the Company's operations in the foreign jurisdictions in which it earns income.

The Company has numerous audits ongoing throughout the world including: an Internal Revenue Service income tax audit for Linear’s pre-acquisition fiscal years 2015, 2016 and 2017; various U.S. state and local tax audits; and international audits, including the transfer pricing audit in Ireland discussed below. The Company was also notified by the Internal Revenue Service that the Company was selected for audit of the fiscal year ended November 3, 2018 (fiscal 2018).

The Company’s Ireland tax returns prior to the fiscal year ended November 2, 2013 are no longer subject to examination. During the fourth quarter of fiscal 2018, the Company’s Irish tax resident subsidiary received an assessment for the fiscal year ended November 2, 2013 (fiscal 2013) of approximately €43.0 million, or $47.3 million (as of May 2, 2020), from the Irish Revenue Commissioners (Irish Revenue). This assessment excludes any penalties and interest. The assessment claims that the Company’s Irish entity failed to conform to 2010 OECD Transfer Pricing Guidelines. The Company strongly disagrees with the assessment and maintains that its transfer pricing is appropriate. Therefore, the Company has not recorded any additional tax liability related to fiscal 2013 or any other periods. The Company intends to vigorously defend its originally filed tax return position and is currently preparing for an appeal with the Irish Tax Appeals Commission, which is the normal process for the resolution of differences between Irish Revenue and taxpayers. If Irish Revenue were ultimately to prevail with respect to its assessment for fiscal 2013, such assessment and any potential impact related to years subsequent to fiscal 2013 could have a material unfavorable impact on the Company's income tax expense and net earnings in future periods. During fiscal 2019, Irish Revenue commenced transfer pricing audits of the fiscal years ended November 1, 2014; October 31, 2015 (fiscal 2015); October 29, 2016 (fiscal 2016); and October 28, 2017 (fiscal 2017); however, the Company received confirmation from Irish Revenue that the audit relating to the period ended November 1, 2014 was complete and that no further tax assessment arose in respect of that period. The audits related to fiscal 2015, fiscal 2016 and fiscal 2017 are on-going.

In February 2018, the Financial Accounting Standards Board (FASB) issued ASU 2018-02, *Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income* (ASU 2018-02). ASU 2018-02 allows stranded tax effects resulting from changes to tax legislation to be reclassified from AOCI to retained earnings. The Company adopted this ASU during the first quarter of fiscal 2020 and therefore applied the ASU in the period of adoption using the specific identification approach. As a result, the Company reclassified approximately $2.4 million from AOCI into retained earnings.

**Note 13 – New Accounting Pronouncements**

*Standards Implemented*

*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. In January 2018, the FASB issued ASU 2018-01, Leases (Topic 842): Land Easement Practical Expedient for Transition to Topic 842 (ASU 2018-01). ASU 2018-01 permits an entity to elect an optional transition practical expedient to not evaluate land easements that existed or expired before the entity’s adoption of Topic 842 and that were not previously accounted for as leases under Topic 840. In July 2018, the FASB issued ASU 2018-11, Leases – Targeted Improvements (Topic 842) (ASU 2018-11), which provides for an additional transition method that allows companies to apply the new lease standard at the adoption date, eliminating the requirement to apply the standard to the earliest period presented in the financial statements.

ASU 2016-02, ASU 2018-01 and ASU 2018-11 are effective for financial statements issued for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. The Company adopted the standard in the first quarter of fiscal 2020 under the modified retrospective approach. As allowed by the new standard, the Company elected the package of transition practical expedients but elected to not apply the hindsight practical expedient to its leases at transition. As a result, the Company was not required to reassess (i) whether any expired or existing contracts are or contain leases, (ii) the classification of any expired or existing leases and (iii) the treatment of initial direct costs for any existing leases. The Company also elected not to separate lease and non-lease components for its leases. Instead, for all applicable classes of underlying assets, the Company accounts for each separate lease component and the non-lease components associated with that lease component, as a single lease component. Additionally, the Company has elected the short-term lease exception for all classes of assets, does not apply the recognition requirements for leases of twelve months or less, and recognizes lease payments for short-term leases as expense either straight-line over the lease term or as incurred depending on whether the lease payments are fixed or variable. These elections are applied consistently for all leases.

Upon adoption on November 3, 2019, the Company recorded operating lease liabilities of $301.4 million and operating lease assets for its leases of $233.2 million. The operating lease assets are net of liabilities of $68.2 million for deferred rent and unamortized landlord construction allowances that were previously recorded in Accrued liabilities and Other non-current liabilities in the Condensed Consolidated Balance Sheets. Operating lease right-of-use assets are presented within Other assets and corresponding liabilities are presented within Accrued liabilities and Other non-current liabilities in the Condensed Consolidated Balance Sheets. There was no material impact to the Condensed Consolidated Statements of Income or

Condensed Consolidated Statements of Cash Flows. Please refer to Note 2, *Leases* for information regarding the Company's lease portfolio as of May 2, 2020.

*Comprehensive Income*

In February 2018, the FASB issued ASU 2018-02, *Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income* (ASU 2018-02). ASU 2018-02 allows stranded tax effects resulting from changes to tax legislation to be reclassified from accumulated other comprehensive income (AOCI) to retained earnings. The Company adopted this ASU during the first quarter of fiscal 2020 and therefore applied the ASU in the period of adoption using the specific identification approach. As a result, the Company reclassified approximately $2.4 million from AOCI into retained earnings. The Company does not expect to record any additional reclassification adjustments in subsequent periods barring further regulatory changes. Please refer to Note 12, *Income Taxes* for additional information regarding the Company's accounting policy for releasing stranded income tax effects from AOCI.

*Other*

The following standards were adopted during the first quarter of fiscal 2020 and did not have a material impact on the Company's financial position and results of operations:

- ASU 2017-11, *Earnings Per Share (Topic 860), Distinguishing Liabilities from Equity (Topic 480), and Derivatives and Hedging (Topic 815): I. Accounting for Certain Financial Instruments with Down Round Features II. Replacement of the Indefinite Deferral Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests with a Scope Exception;*
- ASU 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities;* and
- ASU 2018-07, *Compensation - Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting.*

*Standards to Be Implemented*

*Retirement Benefits*

In August 2018, the FASB issued ASU 2018-14, *Compensation-Retirement Benefits-Defined Benefit Plans-General (Topic 715-20): Disclosure Framework-Changes to the Disclosure Requirements for Defined Benefit Plans* (ASU 2018-14), which modifies the disclosure requirements for defined benefit pension plans and other post-retirement plans. ASU 2018-14 is effective for fiscal years ending after December 15, 2020, with early adoption permitted. ASU 2018-14 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. The adoption of ASU 2018-14 will modify the Company's disclosures for defined benefit plans and other post-retirement plans but is not expected to impact its financial position or 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. In 2019, the FASB issued ASU 2019-05, *Financial Instruments - Credit Losses (Topic 326): Targeted Transition Relief* (ASU 2019-05) and ASU 2019-11, *Codification Improvements to Topic 326* (ASU 2019-11). ASU 2019-05 allows an entity to irrevocably elect the fair value option for certain financial instruments. Once elected, an entity would recognize the difference between the carrying amount and the fair value of the financial instrument as part of the cumulative effect adjustments associated with the adoption of ASU 2016-13. ASU 2019-11 allows entities to exclude the accrued interest component of amortized cost from various disclosures required by Accounting Standards Codification 326. These ASUs are effective for fiscal years beginning after December 15, 2019, and for interim periods within those fiscal years; and therefore, are effective for the Company in the first quarter of fiscal 2021. The Company is currently evaluating the impact, if any, adoption will have on its financial position and results of operations.

*Income taxes*

In December 2019, the FASB issued ASU 2019-12, *Simplifying the Accounting for Income Taxes*. ASU 2019-12 eliminates certain exceptions related to the approach for intraperiod tax allocation, the methodology for calculating income taxes in an interim period and the recognition of deferred tax liabilities for outside basis differences. It also clarifies and simplifies other aspects of the accounting for income taxes. ASU 2019-12 is effective for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. The Company is currently evaluating the adoption date and impact, if any, adoption will have on its financial position and results of operations.

**Note 14 – Subsequent Events**

On May 19, 2020, the Board of Directors of the Company declared a cash dividend of $0.62 per outstanding share of common stock. The dividend will be paid on June 9, 2020 to all shareholders of record at the close of business on May 29, 2020 and is expected to total approximately $228.4 million.

## 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 in our Annual Report on Form 10-K for the fiscal year ended November 2, 2019 (fiscal 2019).

This Quarterly Report on Form 10-Q, including the following discussion, 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; the impact of the COVID-19 pandemic on our business, financial condition and results of operations; 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 changes in or the application of new or revised tax laws; the effect of new accounting pronouncements; our ability to successfully integrate acquired businesses and technologies; 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.

*Impact of COVID-19 on our Business*

The pandemic caused by the novel strain of the coronavirus ("COVID-19") has resulted in government authorities implementing numerous measures to try to contain the virus, such as travel bans and restrictions, quarantines, shelter in place orders and shutdowns. These measures have impacted and likely will continue to impact our workforce and operations, the operations of our customers and those of our respective vendors and suppliers. We have significant operations worldwide, including in the United States, the Philippines, Ireland, Singapore, Malaysia, China and India. Each of these countries has been affected by the outbreak and taken measures to try to contain it, resulting in disruptions at some of our manufacturing operations and facilities. In recent weeks, our manufacturing operations and supply chain have generally stabilized at normal levels, but that could change in the future given that the COVID-19 situation remains dynamic.

The spread of COVID-19 has caused us to modify our business practices (including restricting employee travel, modifying employee work locations and cancelling physical participation in meetings, events and conferences) and we may take further actions as may be required by government authorities or that we determine are in the best interests of our employees, customers, partners, suppliers and shareholders.

While we are confident that our strategy and long-term contingency planning have positioned us well to weather the current uncertainty, we cannot at this time fully quantify or forecast the impact of COVID-19 on our business. The degree to which COVID-19 impacts our business, financial condition and results of operations will depend on future developments, which are highly uncertain, and we cannot provide assurance as to the duration and spread of the outbreak, its severity, the actions to contain the virus or treat its impact, or how quickly and to what extent normal economic and operating conditions can resume.

## Results of Operations

*Overview*

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

| | Three Months Ended | | | |
|---|---|---|---|---|
| | May 2, 2020 | May 4, 2019 | $ Change | % Change |
| Revenue | $ 1,317,060 | $ 1,526,602 | $ (209,542) | (14)% |
| Gross margin % | 64.3 % | 67.7 % | | |
| Net income | $ 267,696 | $ 367,937 | $ (100,241) | (27)% |
| Net income as a % of revenue | 20.3 % | 24.1 % | | |
| Diluted EPS | $ 0.72 | $ 0.98 | $ (0.26) | (27)% |

| | Six Months Ended | | | |
|---|---|---|---|---|
| | May 2, 2020 | May 4, 2019 | $ Change | % Change |
| Revenue | $ 2,620,625 | $ 3,067,703 | $ (447,078) | (15)% |
| Gross margin % | 64.7 % | 67.6 % | | |
| Net income | $ 471,570 | $ 722,943 | $ (251,373) | (35)% |
| Net income as a % of revenue | 18.0 % | 23.6 % | | |
| Diluted EPS | $ 1.27 | $ 1.93 | $ (0.66) | (34)% |

*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 and our methodology 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.

| | Three Months Ended | | | | |
|---|---|---|---|---|---|
| | May 2, 2020 | | | May 4, 2019 | |
| | Revenue | % of Revenue* | Y/Y% | Revenue | % of Revenue* |
| Industrial | $ 710,760 | 54 % | (8)% | $ 771,359 | 51 % |
| Communications | 276,420 | 21 % | (24)% | 363,457 | 24 % |
| Automotive | 182,383 | 14 % | (23)% | 236,011 | 15 % |
| Consumer | 147,497 | 11 % | (5)% | 155,775 | 10 % |
| Total revenue | $ 1,317,060 | 100 % | (14)% | $ 1,526,602 | 100 % |

| | Six Months Ended | | | | |
|---|---|---|---|---|---|
| | May 2, 2020 | | | May 4, 2019 | |
| | Revenue | % of Revenue* | Y/Y% | Revenue | % of Revenue* |
| Industrial | $ 1,395,113 | 53 % | (7)% | $ 1,503,331 | 49 % |
| Communications | 517,253 | 20 % | (27)% | 712,014 | 23 % |
| Automotive | 388,630 | 15 % | (19)% | 480,268 | 16 % |
| Consumer | 319,629 | 12 % | (14)% | 372,090 | 12 % |
| Total revenue | $ 2,620,625 | 100 % | (15)% | $ 3,067,703 | 100 % |

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

Revenue decreased across all end markets in the three- and six- month periods ended May 2, 2020, as compared to the same periods of the prior fiscal year, primarily as a result of a broad-based decrease in demand for our products and by supply constraints attributable to COVID-19 related slowdowns in March and April. The revenue decreases in the Automotive end market were more pronounced as this market was impacted by lower vehicle sales and a global slowdown in production as many of our customers were required to suspend their operations in response to shelter in place orders from governments around the world. The revenue decreases in the Communications end market were also more pronounced as the revenue in this end market in our prior year periods benefited from a significant ramp up as this market moved through infrastructure deployment cycles. The percentage decline in our Industrial end market was less than the overall percentage decline as the broad-based weakness across many applications was offset by growth in the memory test and energy portions of this market.

*Revenue by Sales Channel*

The following table summarizes revenue by sales channel. We sell our products globally through a direct sales force, third party distributors, independent sales representatives and via our website. Distributors are customers that buy products with the intention of reselling them. Direct customers are non-distributor customers and consist primarily of original equipment manufacturers (OEMs). Other customers include the U.S. government, government prime contractors and certain commercial customers for which revenue is recorded over time.

| | Three Months Ended | | | |
|---|---|---|---|---|
| | May 2, 2020 | | May 4, 2019 | |
| | Revenue | % of Revenue* | Revenue | % of Revenue* |
| Channel | | | | |
| Distributors | $ 750,388 | 57 % | $ 871,510 | 57 % |
| Direct customers | 546,051 | 41 % | 634,834 | 42 % |
| Other | 20,621 | 2 % | 20,258 | 1 % |
| Total revenue | $ 1,317,060 | 100 % | $ 1,526,602 | 100 % |

| | Six Months Ended | | | |
|---|---|---|---|---|
| | May 2, 2020 | | May 4, 2019 | |
| | Revenue | % of Revenue* | Revenue | % of Revenue* |
| Channel | | | | |
| Distributors | 1,497,949 | 57 % | 1,700,753 | 55 % |
| Direct customers | 1,077,382 | 41 % | 1,330,323 | 43 % |
| Other | 45,294 | 2 % | 36,627 | 1 % |
| Total revenue | $ 2,620,625 | 100 % | $ 3,067,703 | 100 % |

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

As indicated in the table above, the percentage of total revenue sold via each channel has remained relatively consistent in the periods presented.

*Gross Margin*

| | Three Months Ended | | | | Six Months Ended | | | |
|---|---|---|---|---|---|---|---|---|
| | May 2, 2020 | May 4, 2019 | $ Change | % Change | May 2, 2020 | May 4, 2019 | $ Change | % Change |
| Gross margin | $ 846,674 | $ 1,034,092 | $ (187,418) | (18)% | $ 1,694,816 | $ 2,073,748 | $ (378,932) | (18)% |
| Gross margin % | 64.3 % | 67.7 % | | | 64.7 % | 67.6 % | | |

Gross margin percentage decreased by 340 and 290 basis points in the three- and six-month periods ended May 2, 2020, respectively, as compared to the same periods of the prior fiscal year, primarily as a result of lower utilization of our factories due to decreased customer demand as well as temporary shutdowns at some of our manufacturing locations in response to the COVID-19 pandemic.

*Research and Development (R&D)*

| | Three Months Ended | | | | Six Months Ended | | | |
|---|---|---|---|---|---|---|---|---|
| | May 2, 2020 | May 4, 2019 | $ Change | % Change | May 2, 2020 | May 4, 2019 | $ Change | % Change |
| R&D expenses | $ 252,413 | $ 285,846 | $ (33,433) | (12)% | $ 509,486 | $ 573,228 | $ (63,742) | (11)% |
| R&D expenses as a % of revenue | 19.2 % | 18.7 % | | | 19.4 % | 18.7 % | | |

R&D expenses decreased in the three- and six-month periods ended May 2, 2020, as compared to the same periods of the prior fiscal year, primarily as a result of lower variable compensation expense, lower discretionary spending partially in response to uncertainty associated with the COVID-19 pandemic and lower R&D employee-related salary and 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 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 | | | |
|---|---|---|---|---|---|---|---|---|
| | May 2, 2020 | May 4, 2019 | $ Change | % Change | May 2, 2020 | May 4, 2019 | $ Change | % Change |
| SMG&A expenses | $ 141,775 | $ 163,128 | $ (21,353) | (13)% | $ 341,055 | $ 330,470 | $ 10,585 | 3 % |
| SMG&A expenses as a % of revenue | 10.8 % | 10.7 % | | | 13.0 % | 10.8 % | | |

SMG&A expenses decreased in the three-month period ended May 2, 2020, as compared to the same period of the prior fiscal year, primarily as a result of lower variable compensation expense, lower discretionary spending in response to uncertainty associated with the COVID-19 pandemic and lower SMG&A employee-related salary and benefit expenses.

SMG&A expenses increased in the six-month period ended May 2, 2020, as compared to the same period of the prior fiscal year, primarily as a result of a $40.0 million charitable contribution to the Analog Devices Foundation made in the first quarter of fiscal 2020, partially offset by lower variable compensation expense, lower discretionary spending in response to uncertainty associated with the COVID-19 pandemic and lower SMG&A employee-related salary and benefit expenses.

*Special Charges*

We monitor global macroeconomic conditions on an ongoing basis and continue 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, we have undertaken various restructuring actions over the past several years.

*Repositioning Action:* We recorded special charges of approximately $97.2 million on a cumulative basis through May 2, 2020 as a result of organizational initiatives to reposition our global workforce skill set to align with our long-term strategic plan, of which $9.2 million was recorded in the first quarter of fiscal 2020. Once fully implemented, the repositioning actions are expected to result in net annualized cash savings of approximately $48.0 million.

*Closure of Manufacturing Facilities:* We recorded special charges of $55.3 million on a cumulative basis through May 2, 2020 as a result of our decision to consolidate certain wafer and test facility operations acquired as part of the acquisition of Linear Technology Corporation (Linear), of which $2.0 million was recorded in the first quarter of fiscal 2020 and $1.3 million was recorded in the second quarter of fiscal 2020. Once fully implemented, we expect that these actions will result in estimated annual salary, variable compensation and employee benefit savings of approximately $60.0 million.

See Note 6, *Special Charges*, of the Notes to Condensed Consolidated Financial Statements in Part I, Item 1 in this Quarterly Report on Form 10-Q for further information.

*Operating Income*

| | Three Months Ended | | | | Six Months Ended | | | |
|---|---|---|---|---|---|---|---|---|
| | May 2, 2020 | May 4, 2019 | $ Change | % Change | May 2, 2020 | May 4, 2019 | $ Change | % Change |
| Operating income | $ 344,020 | $ 469,695 | $ (125,675) | (27)% | $ 617,448 | $ 925,521 | $ (308,073) | (33)% |
| Operating income as a % of revenue | 26.1 % | 30.8 % | | | 23.6 % | 30.2 % | | |

The year-over-year decrease in operating income in the three-month period ended May 2, 2020 was primarily the result of a $187.4 million decrease in gross margin, partially offset by a $33.4 million decrease in R&D expenses, a $21.4 million decrease in SMG&A expenses and a $6.8 million decrease in special charges, as described above under the headings *Gross Margin, Research and Development (R&D), Selling, Marketing, General and Administrative (SMG&A)* and *Special Charges.*

The year-over-year decrease in operating income in the six-month period ended May 2, 2020 was primarily the result of a $378.9 million decrease in gross margin and a $10.6 million increase in SMG&A expenses, partially offset by a $63.7 million decrease in R&D expenses and a $17.5 million decrease in special charges, as described above under the headings *Gross Margin*, *Research and Development (R&D)*, *Special Charges* and *Selling, Marketing, General and Administrative (SMG&A).*

*Nonoperating Expense (Income)*

| | Three Months Ended | | | Six Months Ended | | |
|---|---|---|---|---|---|---|
| | May 2, 2020 | May 4, 2019 | $ Change | May 2, 2020 | May 4, 2019 | $ Change |
| Total nonoperating expense (income) | $ 48,959 | $ 61,298 | $ (12,339) | $ 96,170 | $ 117,178 | $ (21,008) |

The year-over-year decrease in nonoperating expense in the three- and six-month periods ended May 2, 2020 was primarily the result of a decrease in interest expense and other, net expenses.

*Provision for Income Taxes*

| | Three Months Ended | | | Six Months Ended | | |
|---|---|---|---|---|---|---|
| | May 2, 2020 | May 4, 2019 | $ Change | May 2, 2020 | May 4, 2019 | $ Change |
| Provision for income taxes | $ 27,365 | $ 40,460 | $ (13,095) | $ 49,708 | $ 85,400 | $ (35,692) |
| Effective income tax rate | 9.3 % | 9.9 % | | 9.5 % | 10.6 % | |

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 effective tax rates for the three- and six-month periods ended May 2, 2020 and May 4, 2019 were below the U.S. statutory tax rate of 21% due to lower statutory tax rates applicable to our operations in the foreign jurisdictions in which we earn income and as a result of the foreign derived intangible income deduction (FDII), partially offset by the global intangible low-tax income (GILTI) tax. The effective tax rate decreased in the three- and six-month periods ended May 2, 2020, as compared to the same period of the prior fiscal year, primarily as a result of a change in the mix of the foreign jurisdictions where we earn income. Additionally, the tax rate for the six-month period ended May 4, 2019 included the effects of recording deferred tax benefits relating to a one-time set up of our GILTI deferred method election of $5.1 million along with the completion of our accounting for the income tax effects of the Tax Cuts and Jobs Act legislation, in accordance with the U.S. Securities and Exchange Commission Staff Accounting Bulletin No. 118 for the transition tax which yielded a $7.5 million tax benefit.

Non-U.S. jurisdictions accounted for a significant portion of our total revenue and pre-tax income for the three- and six-month periods ended May 2, 2020 and May 4, 2019. For the three- and six-month periods ended May 2, 2020, this pretax income was primarily generated in Ireland at a tax rate of 12.5%. For the three- and six-month periods ended May 4, 2019, this pretax income was primarily generated in Ireland and Singapore, at tax rates ranging from 12.5% to 17% in these jurisdictions.

See Note 12, *Income Taxes*, in the Notes to Condensed Consolidated Financial Statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for further discussion.

*Net Income*

| | Three Months Ended | | | | Six Months Ended | | | |
|---|---|---|---|---|---|---|---|---|
| | May 2, 2020 | May 4, 2019 | $ Change | % Change | May 2, 2020 | May 4, 2019 | $ Change | % Change |
| Net Income | $ 267,696 | $ 367,937 | $ (100,241) | (27) % | $ 471,570 | $ 722,943 | $ (251,373) | (35 %) |
| Net Income as a % of revenue | 20.3 % | 24.1 % | | | 18.0 % | 23.6 % | | |
| Diluted EPS | $ 0.72 | $ 0.98 | | | $1.27 | $1.93 | | |

Net income decreased in the three-month period ended May 2, 2020, as compared to the same period of the prior fiscal year, as a result of a $125.7 million decrease in operating income, partially offset by a $13.1 million decrease in provision for income taxes and a $12.3 million decrease in nonoperating expense.

Net income decreased in the six-month period ended May 2, 2020, as compared to the same period of the prior fiscal year, as a result of a $308.1 million decrease in operating income, partially offset by a $35.7 million decrease in provision for income taxes and a $21.0 million decrease in nonoperating expense.

**Liquidity and Capital Resources**

At May 2, 2020, our principal source of liquidity was $784.9 million of cash and cash equivalents, of which approximately $76.1 million was held in the United States. The balance of our cash and cash equivalents was held outside the United States in various foreign subsidiaries. We manage our worldwide cash requirements by, among other things, reviewing available funds held by our foreign subsidiaries and the cost effectiveness by which those funds can be accessed in the United States. We do not expect current regulatory restrictions or taxes on repatriation to have a material adverse effect on our overall liquidity, financial condition or the results of operations. Our cash and cash equivalents consist of highly liquid investments with maturities of three months or less, including money market funds. 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.

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 | |
|---|---|---|
| | May 2, 2020 | May 4, 2019 |
| Net cash provided by operating activities | $ 778,689 | $ 1,042,649 |
| Net cash provided by operations as a % of revenue | 29.7 % | 34.0 % |
| Net cash used for investing activities | $ (116,284) | $ (170,787) |
| Net cash used for financing activities | $ (525,282) | $ (975,069) |

The following changes contributed to the net change in cash and cash equivalents in the six-month period ended May 2, 2020 as compared to the same period in fiscal 2019.

*Operating Activities*

Cash provided by operating activities is net income adjusted for certain non-cash items and changes in operating assets and liabilities. The decrease in cash provided by operating activities during the six-month period ended May 2, 2020, as compared to the same period of the prior fiscal year, was primarily the result of lower net income adjusted for non-cash items, including a $40.0 million non-cash charitable contribution to the Analog Devices Foundation made in the first quarter of fiscal 2020 and a decrease from changes in working capital.

*Investing Activities*

Investing cash flows generally consist of capital expenditures and cash used for acquisitions. The decrease in cash used for investing activities during the six-month period ended May 2, 2020, as compared to the same period of the prior fiscal year, was primarily the result of a decrease in cash used for capital expenditures.

*Financing Activities*

Financing cash flows consist primarily of payments of dividends to stockholders, repurchases of common stock, issuance and repayment of debt and proceeds from the sale of shares of common stock pursuant to employee equity incentive plans. The decrease in cash used related to financing activities during the six-month period ended May 2, 2020, as compared to the same period of the prior fiscal year, was primarily the result of a $350.0 million debt repayment in the six-month period ended May 4, 2019 and a $109.0 million decrease in common stock repurchases in the six-month period ended May 2, 2020 as compared to the same period of the prior fiscal year. We also had a net increase of $95.6 million of debt in the six-month period ended May 2, 2020 as compared to the same period in fiscal 2019,

*Working Capital*

| | May 2, 2020 | November 2, 2019 | $ Change | % Change |
|---|---|---|---|---|
| Accounts receivable | $ 588,244 | $ 635,136 | $ (46,892) | (7)% |
| Days sales outstanding* | 41 | 39 | | |
| Inventory | $ 590,268 | $ 609,886 | $ (19,618) | (3)% |
| Days cost of sales in inventory* | 114 | 110 | | |

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

The decrease in accounts receivable in dollars was primarily the result of the decrease in revenue in the three-month period ended May 2, 2020 as compared to the three-month period ended November 2, 2019 and normal variations in the timing of collections and billings.

Inventory in dollars decreased, primarily as a result of our efforts to balance manufacturing production, demand and inventory levels. Our inventory levels are impacted by our need to support forecasted sales demand and variations between those forecasts and actual demand.

Current liabilities increased to approximately $1.6 billion at May 2, 2020 from approximately $1.5 billion at the end of fiscal 2019. The increase was primarily due to an increase in the current portion of our debt, partially offset by decreases in income taxes payable and accounts payable.

*Debt*

As of May 2, 2020, our debt obligations consisted of the following:

| | | **Principal Amount Outstanding** |
|---|---|---|
| 3-Year term loan, due March 2022 | $ | 925,000 |
| 2.95% Senior unsecured notes, due January 2021 | | 450,000 |
| 2.50% Senior unsecured notes, due December 2021 | | 400,000 |
| 2.875% Senior unsecured notes, due June 2023 | | 500,000 |
| 3.125% Senior unsecured notes, due December 2023 | | 550,000 |
| 2.95% Senior unsecured notes, due April 2025 | | 400,000 |
| 3.90% Senior unsecured notes, due December 2025 | | 850,000 |
| 3.50% Senior unsecured notes, due December 2026 | | 900,000 |
| 4.50% Senior unsecured notes, due December 2036 | | 250,000 |
| 5.30% Senior unsecured notes, due December 2045 | | 400,000 |
| Total debt | $ | 5,625,000 |

In March 2020, we repaid the 2.85% senior unsecured notes that were due March 2020 and in April 2020, we issued the 2.95% senior unsecured notes due April 2025. The indentures governing our outstanding 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 May 2, 2020, we were in compliance with these covenants.

*Revolving Credit Facility*

Our Second Amended and Restated Revolving Credit Agreement, dated as of June 28, 2019, with Bank of America N.A. as administrative agent and other banks identified therein as lenders (Revolving Credit Agreement) provides for a five-year unsecured revolving credit facility in an aggregate principal amount of up to $1.25 billion, expiring on June 28, 2024. In March 2020, we borrowed $350.0 million under this revolving credit facility and utilized the proceeds for the repayment of existing indebtedness and working capital requirements. We repaid the $350.0 million plus interest of $0.6 million in April 2020. We may borrow under this revolving credit facility 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 Revolving 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 Revolving 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 3.5 to 1.0. As of May 2, 2020, we were in compliance with these covenants.

*Stock Repurchase Program*

In the aggregate, our Board of Directors has authorized us to repurchase $8.2 billion of our common stock under our common stock repurchase program. 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 May 2, 2020, an additional $1.9 billion remains available for repurchase under the current authorized program. The repurchased shares are held as authorized but unissued shares of common stock. We also repurchase shares in settlement of employee tax withholding obligations due upon the vesting of restricted stock units/awards or the exercise of stock options. Given the current macroeconomic environment, we have temporarily suspended common stock repurchases under our authorized program. Future repurchases of common stock will be dependent upon our financial position, results of operations, outlook, liquidity, and other factors we deem relevant.

*Capital Expenditures*

Net additions to property, plant and equipment were $115.0 million in the first six months of fiscal 2020 and were funded with a combination of cash on hand and cash generated from operations. We expect capital expenditures for fiscal 2020 to be below 4% of fiscal 2020 revenue. We expect these capital expenditures will be funded with a combination of cash on hand and cash generated from operations.

*Analog Devices Foundation*

During the first quarter of fiscal 2020, we contributed 335,654 shares of our common stock to the Analog Devices Foundation. As of the date of the contribution, the shares had a fair value of approximately $40.0 million. This expense was recorded in SMG&A in the Condensed Consolidated Statement of Income.

*Dividends*

On May 19, 2020, our Board of Directors declared a cash dividend of $0.62 per outstanding share of common stock. The dividend will be paid on June 9, 2020 to all shareholders of record at the close of business on May 29, 2020 and is expected to total approximately $228.4 million. We currently expect quarterly dividends to continue in future periods. The payment of any future quarterly dividends, or a future increase in the quarterly dividend amount, will be at the discretion of the Board and will be dependent upon our financial position, results of operations, outlook, liquidity, and other factors deemed relevant by the Board.

**Contractual Obligations**

In the second quarter of fiscal 2020, we issued a green bond consisting of $400.0 million aggregate principal amount of 2.95% senior unsecured notes due April 1, 2025 with semi-annual fixed interest payments due on April 1 and October 1 of each year, commencing October 1, 2020. In addition, during the same period, we repaid $300.0 million of principal on our 3-year 2.85% senior unsecured notes that were contractually due in March 2020. For additional information, see Note 10, *Debt*, in the Notes to Condensed Consolidated Financial Statements in Part I, Item 1 of this Quarterly Report on Form 10-Q.

There have not been any other material changes during the six-month period ended May 2, 2020 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 November 2, 2019.

**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 13, *New Accounting Pronouncements*, in the Notes to Condensed Consolidated Financial Statements 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.

*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. The FASB has issued amendments and updates to the new standard, including practical expedients to be used during adoption. The Company adopted the standard in the first quarter of fiscal 2020 under the modified retrospective approach. As a result of the adoption of ASU 2016-02, we changed our accounting policy for leases. See Note 2, *Leases* and Note 13, *New Accounting Pronouncements*, in the Notes to Condensed Consolidated Financial Statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for details of the impact of this ASU on our financial statements.

**Critical Accounting Policies and Estimates**

Except for the accounting policies for leases and income taxes that were updated as a result of adopting ASU 2016-02 and ASU 2018-02, respectively, there were no other material changes in the six-month period ended May 2, 2020 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 November 2, 2019. See Note 2, *Leases* and Note 12, *Income Taxes* of the Notes to Condensed Consolidated Financial Statements in Part I, Item 1 in this Quarterly Report on Form 10-Q for further information.

## ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

There were no material changes in the six-month period ended May 2, 2020 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 November 2, 2019.

## 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 May 2, 2020. 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 rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of May 2, 2020, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

(b) *Changes in Internal Control over Financial Reporting.* No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the quarter ended May 2, 2020 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## 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 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 November 2, 2019.

*The extent to which the novel strain of the coronavirus (COVID-19) pandemic will adversely affect our business, financial condition and results of operations is uncertain.*

The COVID-19 pandemic has resulted in government authorities implementing numerous measures to try to contain the virus, such as travel bans and restrictions, quarantines, shelter in place orders, and shutdowns. These measures have adversely impacted and is expected to further adversely impact our workforce and operations, the operations of our customers, and those of our respective vendors and suppliers. We have significant operations worldwide, including in the United States, the Philippines, Ireland, Singapore, Malaysia, China, and India, and each of these countries has been affected by the outbreak and taken measures to try to contain it, resulting in disruptions at some of our manufacturing operations and facilities. There is considerable uncertainty regarding the impact, and expected duration, of such measures and potential future measures, and restrictions on our access to our facilities or on our support operations or workforce, or similar limitations for our vendors and suppliers. Increased restrictions on or disruptions of transportation, such as reduced availability of air transport, port closures, and increased border controls or closures, would limit our capacity to meet customer demand and have a material adverse effect on our business, financial condition and results of operations.

The spread of COVID-19 has caused us to modify our business practices, including restricting employee travel, modifying employee work locations, and canceling physical participation in meetings, events and conferences, and we may take further actions as may be required by government authorities or that we determine are in the best interests of our employees, customers, partners, and suppliers. For example, many of our employees are temporarily working remotely, which may impact our business operations or customer relationships. Such actions may result in further disruptions to our supply chain, manufacturing operations and facilities, and workforce. We cannot provide assurance that such measures will be sufficient to mitigate the risks posed by COVID-19, and our ability to perform critical functions could be harmed.

The COVID-19 outbreak has significantly increased economic and demand uncertainty and has caused an economic slowdown that is likely to continue and result in a global recession. The spread of COVID-19 has led to disruption and volatility in the global capital markets, which may adversely affect our and our customers' and suppliers' liquidity, cost of capital and ability to access the capital markets. As a result, the continued spread of COVID-19 could cause further disruption in our supply chain and customer demand, and could adversely affect the ability of our customers to perform, including in making timely payments to us, which could further adversely impact our business, financial condition and results of operations.

We cannot at this time fully quantify or forecast the impact of COVID-19 on our business. The degree to which COVID-19 impacts our business, financial condition and results of operations will depend on future developments, which are highly uncertain, including the scope and duration of the outbreak, the actions to contain the virus or treat its impact, or how quickly and to what extent normal economic and operating conditions can resume.

*Political and economic uncertainty as well as disruptions in global credit and financial markets could materially and adversely affect our business and results of operations.*

Continuing political and global macroeconomic uncertainty, including related to the COVID-19 pandemic, trade disputes between the United States and China, and the United Kingdom's withdrawal from the European Union, and uncertainty regarding the stability of global credit and financial markets may lead consumers and businesses to postpone or reduce 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. 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 macroeconomic conditions as well as 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. Significant disruption to global credit and financial markets may also adversely affect our ability to access external financing sources on acceptable terms. In addition, financial difficulties experienced by our suppliers, distributors or customers 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.

*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, crises or instability and civil unrest in markets in which we do business, including potential macroeconomic weakness related to trade disputes between the United States and China, the United Kingdom's withdrawal from the European Union and the implementation of the United States-Mexico-Canada Agreement;
- compliance requirements of U.S. customs and export regulations, including the Export Administration Regulations (EAR) and the International Traffic and Arms Regulations (ITAR);
- currency conversion risks and exchange rate and interest rate fluctuations, including the potential impact of the transition from LIBOR;
- trade policy, commercial, travel, export or taxation disputes or restrictions, government sanctions, import or export tariffs, changes to export classifications or other restrictions imposed by the U.S. government or by the governments of the countries in which we do business, particularly in China;
- complex, varying and changing government regulations and legal standards and requirements, particularly with respect to tax regulations, 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 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;
- changes in immigration laws, regulations and procedures and enforcement practices of various government agencies;
- greater difficulty enforcing intellectual property rights and weaker laws protecting such rights;
- natural disasters or public health emergencies, such as the current COVID-19 outbreak;
- 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 within our business operations in China. For example, changes in U.S.-China relations, the political environment or international trade policies and relations could result in further revisions to laws or regulations or their interpretation and enforcement, increased taxation, trade sanctions, the imposition of import or export duties and tariffs, restrictions on imports or exports, currency revaluations, or retaliatory actions, which has had and may continue to have an adverse effect on our business plans and operating results. In addition, our success in the Chinese markets may be adversely affected by China's continuously evolving policies, laws and regulations, including those relating to antitrust, cybersecurity and data protection, the environment, indigenous innovation and the promotion of a domestic semiconductor industry, and intellectual property rights and enforcement and protection of those rights.

The Company carries outside basis differences in certain of its subsidiaries, primarily arising from acquisition accounting adjustments and undistributed earnings that are considered indefinitely reinvested. We intend to reinvest these funds in our international operations, and our current plans do not demonstrate a need to repatriate these earnings to fund our U.S. cash requirements. 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 revolving 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 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 extent of the impact and the duration of the COVID-19 pandemic;
- the effects of adverse economic conditions in the markets in which we sell our products;
- changes in customer demand or order patterns 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;
- our ability to accurately forecast distributor demand for our products;
- our ability to accurately estimate future distributor pricing credits and/or stock rotation rights;
- 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 effects of issued, threatened or retaliatory government sanctions, trade barriers or economic restrictions, changes in law, regulations or other restrictions, including executive orders, changes in import and export regulations, export classifications or changes in duties and tariffs, particularly with respect to China;
- the timing of new product announcements or introductions by us, our customers or our competitors and the market acceptance of such products;
- pricing decisions and 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 worldwide, 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 liability, 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 standards;
- 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 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 the first three and six months of the fiscal year ending October 31, 2020 was below our U.S. federal statutory rate of 21%. This is 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; deferred taxes arising from basis differences in investments in foreign subsidiaries; any adverse resolution of ongoing tax audits or adverse rulings from taxing authorities worldwide, including our current transfer pricing appeal in Ireland; 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. In addition, we have a partial tax holiday through July 2025 in Malaysia. The ability to extend such tax holiday beyond its expiration date cannot be assured. In addition, if we fail to meet certain conditions of the tax holiday, we may lose the benefit of the tax holiday and/or be subject to additional taxes and/or penalties. Any significant increase in our future effective tax rate could adversely impact our net income during future periods.

Compliance with the Tax Cuts and Jobs Act of 2017 (Tax Legislation) may require the collection of information not regularly produced within the Company, and therefore necessitate the use of estimates in our Condensed Consolidated Financial Statements and the exercise of significant judgment in accounting for its provisions. As regulations and guidance evolve with respect to the Tax Legislation, and as more information is gathered and analyzed, our results may differ from previous estimates and may materially affect our Condensed Consolidated Financial Statements.

We are also subject to laws and regulations in various jurisdictions that determine how much profit has been earned and when it is subject to taxation in that jurisdiction. Changes in these laws and regulations, including those that align to or are associated with the Organization for Economic Cooperation and Development's Base Erosion and Profit Shifting (BEPS) Actions Plans, could impact the jurisdictions where we are deemed to earn income, which could in turn adversely affect our tax liability and results of operations.

*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, information security practices, and other methods, to protect our proprietary information, technologies and processes. Despite our efforts to protect our intellectual property, it is possible that competitors or other unauthorized third parties may obtain or disclose our confidential information, reverse engineer or copy our technologies, products or processes, or otherwise misappropriate our intellectual property. 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 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 prevent others from exploiting our proprietary technology. We may not be able to obtain foreign patents or pending applications corresponding to our U.S. patents and applications. Even if patents are granted, we may not be able to effectively enforce our rights. If our patents and mask works do not adequately protect our technology, or if our registrations expire prior to end of life of our products, 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 or certain of our products 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, employee malfeasance, user errors, catastrophes or other unforeseen events. Due to the COVID-19 outbreak, many of our employees are temporarily working remotely, which may pose additional data security risks. We also rely upon 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 of our information technology systems and certain of our products caused by viruses, illegal break-ins or hacking, sabotage, or acts of vandalism by third parties or our employees or contractors. 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, those third parties may nonetheless 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, suppliers, or other third parties which could result in our suffering significant financial or reputational damage.

*Our customers typically do not make long-term product purchase commitments and incorrect forecasts or reductions, cancellations or delays in orders for our products could adversely affect our operating results.*

We typically do not have sales contracts with our customers that include long-term product purchase commitments. 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 non-binding forecasts of customer demands, which may fluctuate significantly on a quarterly or annual basis and at times may prove to be inaccurate. 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, if orders or forecasts for products that meet a customer’s unique requirements are canceled or unrealized we may be left with an inventory of unsaleable products, causing potential inventory write-offs, and hindering our ability to recover our costs. 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 ability to execute our business strategy, continue to innovate, improve our existing products and design, develop, produce and market innovative new products and system-level solutions. 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.

Our growth is also dependent on our ability to identify and penetrate new markets where we have limited experience yet 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. 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 end-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.

*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 both emerging companies selling specialized products in markets we serve and companies outside of the U.S., including entities associated with well-funded 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 developing and emerging markets, 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-parties for supply of raw materials and parts, semiconductor wafer foundry services, assembly and test services, and transportation, among other things, and we generally cannot control their availability or conditions of supply or services.*

We rely, and plan to continue to rely, on third-party suppliers and service providers, including raw material and components suppliers, semiconductor wafer foundries, assembly and test contractors, and freight carriers (collectively, vendors) in manufacturing our products. This reliance involves several risks, including reduced control over availability, capacity utilization, delivery schedules, manufacturing yields, and costs. We currently source approximately half of our wafer requirements annually from third-party wafer foundries, including Taiwan Semiconductor Manufacturing Company (TSMC) and others. These foundries often provide wafer foundry services to our competitors and therefore periods of increased industry demand may result in capacity constraints. In addition, in certain instances, one of our vendors may be the sole source of highly specialized processing services or materials. If such vendor is unable or unwilling to manufacture and deliver components to us on the time schedule and of the quality or quantity that we require, we may be forced to seek to engage an additional or replacement vendor, which could result in additional expenses and delays in product development or shipment of product to our customers. If additional or replacement vendors 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 the COVID-19 pandemic, natural or man-made disasters, civil unrest 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 indebtedness.*

Our ability to make payments of principal and interest on our indebtedness when due 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. For example, the disruption to economic activity resulting from the COVID-19 outbreak has had, and is likely to continue to have, adverse effects on our supply chain, manufacturing operations and facilities, and workforce. 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 growing our business operations;
- repatriate earnings as dividends from foreign locations with potential for negative tax consequences; or
- sell selected assets.

Such measures might not be sufficient to enable us to service our debt, which could negatively impact our financial results. In addition, we may not be able to obtain any such financing, refinancing or complete a sale of assets on economically favorable terms. In the case of financing or refinancing, favorable interest rates will depend on the health of the debt capital markets.

*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, 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 warranty, indemnity and/or product liability 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 that affect their quality or performance. Failures in our products and services or in the products of our customers could result in damage to our reputation for reliability and increase our legal or financial 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 that our products will meet their published specifications, and that we will repair or replace defective products, for one year from the date title passes from us to the customer. 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 and expenses associated with product defects, including recalls, which may adversely impact our operating results. We may also be subject to customer intellectual property 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. Further, we sell to customers in industries such as automotive (including autonomous vehicles), aerospace, defense, and healthcare, where failure of the systems in which our products are integrated could cause damage to property or persons. We may be subject to product liability claims if our products, or the integration of our products, cause system failures. Any product liability claim, whether or not determined in our favor, could result in significant expense, divert the efforts of our technical and management personnel, and harm our business. In addition, if any of our products contain defects, or have reliability, quality or compatibility problems not capable of being resolved, our reputation may be damaged, which could make it more difficult for us to sell our products to customers and which could also adversely affect our operating results.

The fabrication of integrated circuits is highly complex and precise, and our manufacturing processes utilize a substantial amount of technology. 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 occasionally involved in litigation, including claims regarding intellectual property rights, which could be costly to litigate 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. 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 customer 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. 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.

*If we are unable to recruit or 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 key personnel, including our leadership team, management and technical personnel, particularly our experienced engineers. The competition for these employees is intense. The loss of key personnel or the inability to attract, hire and retain key employees with critical technical skills to achieve our strategy, including as a result of changes to immigration policies, could also have a material adverse effect on our business. We do not maintain any key person life insurance policy on any of our officers or other 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, expand our technical skill sets 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 challenging to complete for a number of reasons, including difficulties in identifying potential targets, 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 and other regulatory 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 challenges and risks, including:

- diversion of management’s attention in connection with both negotiating the transaction and integrating the acquired assets and businesses;
- difficulty or delay integrating acquired technologies, operations, systems and infrastructure, and personnel with our existing businesses;
- strain on managerial and operational resources as management tries to oversee larger or more complex operations;

- the future funding requirements for acquired companies, including research and development costs, employee compensation and benefits, and operating expenses, which may be significant;
- servicing significant debt that may be incurred in connection with acquisitions;
- potential loss of key employees;
- exposure to unforeseen liabilities or regulatory compliance issues of acquired companies;
- higher than expected or unexpected costs relating to or associated with an acquisition and integration of assets and businesses;
- difficulty realizing expected cost savings, operating synergies and growth prospects of an acquisition in a timely manner or at all; and
- increased risk of costly and time-consuming legal proceedings.

If we are unable to successfully address these risks, we may not realize some or all of the expected benefits of our acquisitions, 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.

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

A significant portion of our sales are through independent global and regional distributors that are not under our control. Arrow Electronics is currently our largest distributor. These independent distributors generally represent product lines offered by several companies and thus could reduce their sales efforts for our products or they could terminate their representation of us. We generally do not require letters of credit from our distributors, including our largest distributor, 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 with the appropriate scale and resources, our operating results could be adversely affected.

Effective November 4, 2018, all distributor sales are recognized upon shipment to the distributor under Accounting Standards Update 2014-09, *Revenue from Contracts with Customers* (ASU 2014-09). We are now required to estimate the effects of returns and allowances provided to distributors and record revenue at the time of sale to the distributor. If our estimates of such credits and rights are materially understated, it could cause subsequent adjustments that negatively impact our revenues and gross profits in a future period.

*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 that control and restrict the sourcing, use, transportation, emission, discharge, storage and disposal of certain substances, 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 contract with us. Changes in EHS laws or regulations may require us to invest in costly equipment or make manufacturing process changes 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 any of the following, each of which could have a material adverse effect on our business and operating results:

- 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.

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

Our current revolving credit facility, term loan 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 changes in technology, government regulations and the level of competition in our markets. In addition, our revolving credit facility and term loan require 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 and/or we may be restricted from further borrowing under our revolving credit facility.

*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, such as the Cybersecurity Maturity Model Certification. 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.

*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:

- the extent of the impact and the duration of the COVID-19 outbreak;
- 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, including with respect to trade, travel, export and taxation;
- 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

| 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 |
|---|---|---|---|---|
| February 2, 2020 through February 29, 2020 | 212,956 | $ 115.34 | 208,151 | $ 1,948,052,802 |
| March 1, 2020 through March 28, 2020 | 811,508 | $ 96.14 | 575,327 | $ 1,893,079,550 |
| March 29, 2020 through May 2, 2020 | 117,943 | $ 93.27 | — | $ 1,893,079,550 |
| Total | 1,142,407 | $ 99.43 | 783,478 | $ 1,893,079,550 |

(a) Includes 358,929 shares withheld by us from employees to satisfy minimum employee tax obligations upon vesting of restricted stock units/awards granted to our employees under our equity compensation plans.

(b) The average price paid for shares in connection with vesting of restricted stock units/awards 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. 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 in an aggregate amount of up to $8.2 billion. 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

| Exhibit No. | Description |
|---|---|
| 4.1 | Supplemental Indenture, dated April 8, 2020, between Analog Devices, Inc. and The Bank of New York Mellon Trust Company, N.A., as trustee (including the form of note contained therein), filed as Exhibit 4.2 to the Company's Current Report on Form 8-K (File No. 001-07819) as filed with the Commission on April 8, 2020 and incorporated herein by reference. |
| 10.1 | Analog Devices, Inc. 2020 Equity Incentive Plan, included as Appendix B to the Company's definitive proxy statement on Schedule 14A (File No. 001-07819) as filed with the Commission on January 24, 2020 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 | The instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the inline XBRL document.** |
| 101.SCH | Inline XBRL Schema Document.** |
| 101.CAL | Inline XBRL Calculation Linkbase Document.** |
| 101.LAB | Inline XBRL Labels Linkbase Document.** |
| 101.PRE | Inline XBRL Presentation Linkbase Document.** |
| 101.DEF | Inline XBRL Definition Linkbase Document.** |
| 104 | Cover page Interactive Data File (formatted as inline XBRL with applicable taxonomy extension information contained in Exhibits 101). |
| † | Filed or furnished herewith. |
| * | The certification furnished in each of Exhibits 32.1 and 32.2 hereto are deemed to accompany this Quarterly Report on Form 10-Q and will not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, except to the extent that the Registrant specifically incorporates each by reference. Such certification will not be deemed to be incorporated by reference into any filings under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, except to the extent that the Registrant specifically incorporates it by reference. |
| ** | Submitted electronically herewith. |

Attached as Exhibit 101 to this report are the following formatted in iXBRL (Inline Extensible Business Reporting Language): (i) Condensed Consolidated Statements of Income for the three and six months ended May 2, 2020 and May 4, 2019, (ii) Condensed Consolidated Statements of Comprehensive Income for the three and six months ended May 2, 2020 and May 4, 2019, (iii) Condensed Consolidated Balance Sheets at May 2, 2020 and November 2, 2019, (iv) Condensed Consolidated Statements of Shareholders' Equity for the three and six months ended May 2, 2020 and May 4, 2019, (v) Condensed Consolidated Statements of Cash Flows for the six months ended May 2, 2020 and May 4, 2019 and (vi) Notes to Condensed Consolidated Financial Statements for the three and six months ended May 2, 2020.

## 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 20, 2020 | By: | /s/ Vincent Roche |
| | | Vincent Roche<br>President and Chief Executive Officer<br>(Principal Executive Officer) |
| Date: May 20, 2020 | By: | /s/ Prashanth Mahendra-Rajah |
| | | Prashanth Mahendra-Rajah<br>Senior Vice President, Finance and Chief Financial Officer<br>(Principal Financial Officer) |

Exhibit 31.1

**CERTIFICATION**

I, Vincent Roche, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Analog Devices, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 20, 2020

/s/ Vincent Roche

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

Exhibit 31.2

**CERTIFICATION**

I, Prashanth Mahendra-Rajah, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Analog Devices, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 20, 2020

/s/ Prashanth Mahendra-Rajah

Prashanth Mahendra-Rajah
Senior Vice President, Finance
and Chief Financial Officer
(Principal Financial Officer)

Exhibit 32.1

**Certification Pursuant to 18 U.S.C. Section 1350,**
**As Adopted Pursuant to**
**Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Quarterly Report on Form 10-Q of Analog Devices, Inc. (the “Company”) for the period ended May 2, 2020 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), the undersigned, Vincent Roche, Chief Executive Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

| | |
|---|---|
| Date: May 20, 2020 | /s/ Vincent Roche |
| | Vincent Roche |
| | Chief Executive Officer |

Exhibit 32.2

**Certification Pursuant to 18 U.S.C. Section 1350,**
**As Adopted Pursuant to**
**Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Quarterly Report on Form 10-Q of Analog Devices, Inc. (the “Company”) for the period ended May 2, 2020 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), the undersigned, Prashanth Mahendra-Rajah, Chief Financial Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

| | |
|---|---|
| Date: May 20, 2020 | /s/ Prashanth Mahendra-Rajah |
| | Prashanth Mahendra-Rajah |
| | Chief Financial Officer |