FINAL TRANSCRIPT

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PRESENTATION

Operator

Good afternoon. I will be your conference facilitator. At this time, I would like to welcome everyone to the Analog Devices fiscal third quarter 2009 earnings conference call. All lines have been placed on mute to prevent any background noise. After the opening remarks, there will be a question and answer period with our analyst participants. (Operator Instructions). Thank you. Ms. Kohl, you may begin your conference.

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

Thanks very much, Kara and good afternoon everyone. This is Mindy Kohl, Director of Investor Relations for Analog Devices. We really appreciate you joining us for today's call. If you haven't yet seen our third quarter fiscal 2009 release you can access it on the home page of our IR website at investor.analog.com. This conference call is also being broadcast live on the internet and the webcast may be accessed by clicking on the microphone icon on the home page of our IR website. A recording of this conference call will be available today, within about two hours of the call's completion, and will remain available via phone and Internet playback for one week. This webcast will also be archived on our IR website.

Participating in today's call are Jerry Fishman, President and CEO, and Dave Zinsner, Vice President of Finance and CFO. During the first part of the call, Jerry and Dave will present our third quarter results and our short-term outlook, and then we'll open it up for questions during the latter part of the call. During today's call, we will refer to several non-GAAP financial measures that have been adjusted for one-time items, in order to provide investors with useful information regarding our results of operations and business trends. We have included reconciliations of these non-GAAP measures to their most directly comparable GAAP measures in today's earnings release which is posted on the IR website.

We have also updated the schedules on our IR website which includes the historical quarterly and annual summary P&L for continuing operations, as well as historical quarterly and annual information for product revenue from Continuing Operations by end market and by product type. Next, I'd ask you to please note that the information we are about to discuss includes forward-looking statements, which include risks and uncertainties. The Company's actual results could differ materially from those we will be discussing. Factors that could contribute to such differences include, but are not limited to those described in the Company's SEC filings, including our most recent quarterly report on Form 10-Q filed this afternoon. The forward-looking information that is provided by the Company in this call represents the Company's outlook as of today, and we do not undertake any obligation to update the forward-looking statements made by us.

Subsequent events and developments may cause the Company's outlook to change. Therefore, this conference call will include time sensitive information that may be accurate only as of the date of this live broadcast, which is August 18th, 2009. With that, I'll turn the call over to Jerry Fishman.

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

Well, good afternoon and thanks for joining us on today's call. As you can see from the press release and the 10-Q, we had a very solid quarter with sequential revenue growth of 4% and earnings growth of about 22%. These results were both ahead of our plan as orders were stronger than we predicted throughout the quarter. On a sequential basis, revenues grew 28% in the consumer market, 21% in the automotive market, and 3% in the industrial market.

Communications revenues declined 9% sequentially, as we expected as our largest wireless infrastructure customers in Asia reduced their order levels to lower their inventories. Sales to handset customers increased during the quarter. In line with all these market trends, our revenues were approximately flat in the US and Europe, up in Japan, and declined slightly in Asia, mostly as a result of Chinese infrastructure revenue declines. Orders on ADI grew significantly in Q3, the result of a generally more positive outlook at most of our customers and also our distributors restocking after many quarters of reducing their inventory.

As a result, our book-to-bill ratio was above one for the quarter and our backlog increased. Distributor orders on ADI were higher than orders from our end customers, on our distributors, which is typical in this phase of the business cycle, where the distributors are restocking their shelves. Overall, our sense is that customers and distributors are more confident, as they believe they've seen the low point of the cycle and they're now planning for some growth in the future.

I think most importantly, orders from our industrial customers increased sequentially for the first time in many quarters. Given the importance of the industrial market to ADI, we've now surveyed our largest industrial customers to better understand their expectations for the near term future. Generally, our most optimistic industrial customers are in Asia, where growth prospects are the strongest and ADI is going a very significant industrial franchise that replicates our leadership position built over many years in the industrial markets in the United States and Europe. Overall, most industrial customers across all the regions, including the US and Europe, believe that business is stabilized and they're planning for continued gradual recovery later this year and into 2010.

During Q3, our gross margins declined by about 100 basis points to 54.1%, which was in line with the expectations given the somewhat lopsided mix of business that was atypical for the quarter. At this point in the cycle, we believe we've now reached the trough for gross margins. The industrial business is now beginning to grow and our inventory levels are now back in line with our model, so utilization will begin to increase in our fourth quarter.

As we said last quarter, we believe we're at the very beginnings of a fairly significant ramp in gross margins in 2010 and beyond. Operating margins improved to 16% of sales. We continue to see the benefits of previous restructuring actions as operating expenses declined by an additional $4 million or approximately 2% sequentially. Representing now a cumulative decline of more than $53 million on a quarterly basis, or 22%, excluding restructuring costs since the end of the prior year period.

We believe that ADI is now in a very strong position, perhaps the strongest in our recent history. During the downturn, we continued to invest significantly in new product development to further improve our portfolio and our competitive position. At the same time, we reduced our costs by over 20%, a portion of which are permanent cost reductions. We believe that the third quarter, as I said earlier, marked the low point for our gross margins in the cycle and the tangible benefits of our margin improvement initiatives are just beginning to unfold.

We're planning to tightly manage operating expenses in this cycle so that our earnings can grow much faster than our revenues. As we finalize next year's operating plan later this quarter, we'll be able to provide more specific guidance regarding our financial goals for fiscal 2010, and we hope to do that or be ready to talk about that by next quarter's call.

So now I'll turn the podium over here to Dave, who's going to review the financials in a bit more detail.

David Zinsner - *Analog Devices Inc. - VP Finance, CFO*

Thanks, Jerry. As Jerry stated, revenues were $492 million, a 4% increase from the prior quarter and a 25% decrease from the prior year. Orders increased this quarter and we closed the quarter with a book-to-bill that was above one.

Gross margins were 54.1%, which was within our forecasted range of 54 to 55%. This was down from the 55.1% we reported in Q2 due to a greater mix of consumer and automotive revenue and less communications infrastructure revenue. In addition, factory utilization remained low at approximately 45% as we continued to focus on reducing inventory levels in the third quarter. Inventory on our balance sheet declined by $29 million this quarter and our days of inventory are now at 112. We believe that third quarter gross margins represent a trough for this cycle and anticipate a gradual improvement in gross margins going forward as our product mix stabilizes to historical levels and we gradually begin to increase production levels.

We anticipate more significant increases in gross margins beginning in Q1 and continuing throughout the next fiscal year, as we realize the benefits of the manufacturing consolidations and cost reductions that we've executed this year. Capital expenditures were approximately $5 million in Q3. We expect CapEx to be at or slightly below $55 million for the full year. Lower capital spending is the result of lower factory utilization and the outsourcing of advanced CMOS wafer production of higher volume products to Asia.

In the longer term, we expect capital spending in future years to continue to be well below current depreciation levels, which should create the opportunity for important gross margin expansion as depreciation approximates capital spending. Operating expenses were $187 million, down $4 million, excluding restructuring, from the prior quarter and down $53 million from the prior year, as we're planning for operating expenses to remain under very tight control as business improves. Other income was $1 million, down from $4 million the prior quarter, primarily due to lower interest rates earned on invested cash balances and interest expense as a result of the issuance of $375 million of five year, 5% coupon bonds in Q3.

Next quarter, we expect to have a full quarter's effect of the borrowing and thus expect that other income and expense will swing to an expense of $1 million, assuming current interest rates stay the same. Our tax rate decreased to 18% this quarter, as we adjusted our annual tax rate to 20% from the previously expected levels of 21%. We expect our fourth quarter tax rate to be approximately 20%. Weighted average shares outstanding were $293 million this quarter. We expect weighted average shares to increase to $296 million next quarter.

Diluted EPS from continuing operations was $0.22 compared to $0.44 in the year-ago period and $0.18 in the immediate prior quarter. Total cash and investments was $1.7 billion, up $439 million from $1.3 billion last quarter, due in part to the $375 million bond issuance. Net cash after debt was approximately $1.3 billion. Cash flow from operations was $134 million, or 27% of sales, and we paid out $58 million in dividends during the third quarter. Our AR balance increased slightly due to the increase in revenue. However, our DSOs stayed relatively flat at 45 days, and we have no customers that are late to their payment term.

In summary, this was a good financial quarter for ADI. Most of the numbers came in better than our expectations. More importantly, we have done a good job positioning the Company for great leverage in the future. We have one fab consolidation behind us and we will begin to see the benefits of the savings from this in the first quarter of our next fiscal year. The second consolidation is on track to be completed by the end of this fiscal year and we should begin to see the savings from this in the back half of fiscal 2010.

We expect these two consolidations combined will save the Company approximately $65 million on an annualized basis. Ultimately, the combination of gross margin and expense leverage could produce significant operating leverage if revenues continued to increase in future quarters. As we stated on our last call, our goal is to achieve margins equivalent to our peak margins at lower revenue levels than before. And higher margins at equivalent sales levels. The actions that we have taken over the past few years to heighten our focus on more profitable and sustainable businesses and to put in place far greater expense discipline should be the catalyst to achieve these objectives as revenues increase.

Now I'll turn the call over to Jerry to discuss key end market trends and our short-term outlook.

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

The revenues from our broad base of industrial customers were approximately 50% of our revenues during the quarter, but still down 29% year-over-year even though it was up 3% sequentially. We were very pleased to see that orders and revenues from our factory automation and instrumentation customers increased in Q3, as these companies started to reverse the massive inventory destocking of the past year, and at the margin are more enthusiastic about their prospects for next year. And particularly automotive sales were very strong in Q3, driven by increased production rates of European car manufacturers. The revenues from automotive customers increased 21% sequentially, although this is still 28% below our third quarter 2008 sales peak in automotive.

In the third quarter, sales of our battery monitoring,brake sensing and automotive products all increased significantly and we won design-ins with several hybrid and electric vehicle system suppliers. Revenues from healthcare customers declined this quarter due to the ongoing capital spending constraints at hospitals in all regions of the world with the exception of China, which experienced double-digit growth in healthcare sales for the second consecutive quarter. Overall design-in activity at healthcare customers continues at a very brisk pace and we would expect revenues in this market to begin to recover in our fourth quarter. Revenues from defense customers also declined sequentially, and year-over-year, as programs were cut and delayed, but here too we also believe that auto rates in this market have now stabilized.

In the third quarter, our revenues from communications customers were about 25 or 26% of total revenues, they were down 15% from last year and 9% sequentially. Communications infrastructure revenues decreased quarter-to-quarter, with declines in sales of base station and optical products, and an increase in sales of networking products. With respect to base stations, revenues from our non-Chinese base station customers which still represents the largest portion of our base station business, were approximately flat sequentially. This was more than offset on the negative side by the sequential decrease in revenues from our Chinese base station customers who slowed their spending in Q3 as we expected, making inventory corrections following accelerated buying from those customers in the first half of our fiscal year.

In total, our base station revenues are now expected to improve in Q4 with the strongest improvement at Chinese customers who have now normalized their inventory of ADI products. In addition, trends such as network management outsourcing, the transition to mobile data in developing regions, and the progressive roll-out of the more data centric 3G and 4G standards should serve as critical growth drivers for our communications infrastructure business in the future. During Q3, revenues from our handset customers increased sequentially as a result of strong demand for our imaging, audio, RF, power management and high speed interconnect products to market leading customers. We expect the revenues from this market to continue to increase in Q4, albeit at a somewhat slower rate than Q3.

The revenues from the consumer end market were 21% of revenue, were down 21% year-over-year, but up 28% sequentially from the second quarter. The declines in the consumer end market we experienced in the first half of the year were at least partially driven by inventory depletion which now appears to be behind us. As a result, our consumer revenues have now moved closer to end consumption with sales increasing for the second consecutive quarter, albeit at a much more significant rate in Q3 than in Q2. Also contributing to our growth in the consumer market in Q3 were increasing sales of our analog front ends in cameras, HDMI products and solutions into the consumer related products.

Revenues from our computer customers which are now a de minimus portion of our sales, less than 2%, declined year-over-year and sequentially. As we mentioned in previous quarters, we significantly reduced or eliminated investments in application-specific products for computers, given what we see as a very limited opportunity for high performance signal processing in the computer market.

So now we'll turn to the outlook for the fourth quarter. For our fourth quarter we're planning for our revenues to grow to a range of $510 million to $530 million. That's a sequential increase of between 4 and 8%. This plan is based on assumptions that consumer revenues will grow seasonally, as is typical in our Q4. Industrial revenues will gradually increase again, and our communications infrastructure sales will increase from Q3 levels.

We expect increases in sales from both OEM and also from distributor customers. It's very important to note that at ADI, we don't get any revenue increases from distributor restocking orders, since we only record revenues when our products are sold to end customers. 100% on sell-through and that's true for ADI, both domestically and internationally. We believe that's a more intelligent and stable way to recognize revenue than to recognize revenue when distributors move their inventories up and down. We're planning for our gross margins to be approximately 55%, in line with our plans for a small increase in factory utilization and still lower days of inventory that we're planning for Q4.

As we mentioned earlier, our goal is to continue to maintain very disciplined control of all our operating expenses, and as a result we're planning for only a very slight increase of 1 to 2% in the fourth quarter. This would produce earnings from our continuing operations in the range of $0.24 to $0.26 in Q4. We expect operating cash flow to again be very strong in the quarter, in line with higher revenues, higher gross margins, tight expense control, tight inventory control, and continued very low capital spending. So I would say in conclusion, we're more optimistic than we were last quarter.

There's increasing evidence that our business has stabilized. Importantly, we have and will continue to leverage this cycle to fundamentally realign ADI's product portfolio, and cost structure to become a much more competitive Company, without damaging the innovation engine that has been the heart of our success for many years. Throughout this recent downturn, we continue to invest very heavily in new technology to ensure our future growth rates. For example, during the past four quarters alone, we have introduced well over 300 new products, which is a recent record for ADI. Moreover, our design pipeline is up significantly, a testament to the fact that despite all the economic uncertainty around the world, innovation and technology and at ADI continues. This, combined with a very significant leverage that's now inherent in our business model, should bode very well for ADI for our customers and also for our shareholders as conditions continue to improve. So with that, we'll open up the lines for questions from any analysts.

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

Thank you, Jerry. During today's Q&A period we ask everyone to please limit yourself to one primary question and no more than one follow-on question. We'll give you another opportunity to ask additional questions if we do have time remaining. Operator, we're now ready to turn it over to our analyst participants.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). We will pause for just a moment to compile the Q&A roster. Our first question will come from Uche Orji with UBS. Mr. Orji, your line is open.

Uche Orji - *UBS - Analyst*

Can you hear me?

Operator

Yes, sir, we can hear you.

Uche Orji - *UBS - Analyst*

Hello, can you hear me?

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

Yes.

Uche Orji - *UBS - Analyst*

Sorry about that. Jerry, thank you very much. Let me ask you my first question. With the comments you're giving, by how much do you think utilization rates will go up next quarter and when should we expect that to naturally impact gross margins, a little bit further down the line. I'm not trying to ask to you give me a definite guidance, because many things can affect the January quarter but if utilization rate rises in the current quarter should we expect that to impact gross margins in the following quarter.

David Zinsner - *Analog Devices Inc. - VP Finance, CFO*

This is Dave by the way. The utilization is going to go up by a couple of points next quarter and that will impact gross margins. That's one of the reasons we're guiding 90 basis points or so. Our expectation is that utilization should start to pick up. It obviously depends on how the market performs over the next several quarters, but if it continues to go up into the right our expectation is that we would start to bring utilization up during that time.

We're now at a point in terms of inventory where we kind of like where the days of inventory are. We think inventory days will be down a few more days but we're at a point now where I think we can kind of -- we can start to tick up utilization. Now might be a good time actually to go into gross margins because that's kind of the corollary with utilization. Our expectation is that given our mix profile on a long-term basis, we really believe that we can get our gross margins into the low 60s. We have obviously a number of tail winds that are going to impact gross margins going forward as I talked about, our Limerick six inch line is for the most part closed. That's $25 million of annualized savings and that will start impacting the P&L in the quarter of next year.

We have about $40 million of savings coming from the closure of Cambridge which will come to completion at the end of this fiscal year and once we get through the old inventory in the first half of the year by sometime in the second half of the year, we'll start to see the annualized benefit of that. On top of that, we have really done an outstanding job on capital spending. Our capital spending this year will be $55 million. A couple of years ago, I think it was running in the $150 million range.

We really see now, given our model, what we think we'll use internally versus externally, that really somewhere in the 50 to $60 million of capital spending per year is really kind of the go forward model for us. Our depreciation right now is running I think this quarter on an annualized basis is running somewhere between 120 and $130 million. So eventually that depreciation on an annualized basis will move from 120 to 130 a year to somewhere in the $50 million to $60 million over the next several years. That's going to have a definite tailwind to gross margins and immediately will have a very good benefit on our free cash flow.

Uche Orji - *UBS - Analyst*

Fantastic. Just ask a different question, my follow-up. If I look at -- Jerry, this is for you. The Chinese business that you talked about on the base station side, first of all, do you think you were disproportionately impacted with regards to the inventory build and the inventory correction and obviously demand has come back. Do you think that the demand you're seeing now is more in line with their consumption and if you look further down, given what you know of that marketplace, do you think that -- what is your sense as to when we might experience this kind of blip again. Do you think for here on it should take a little bit longer?

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

We have a -- the largest part of our base station business as I said in my earlier comments, over 50% is not in China, and that part has been relatively stable and we expect it to be stable going forward. The Chinese part you might remember from the first and second quarter, I mean, that was sort of keeping us alive when the world was coming unglued in the first and second quarter, and what really happened over there, and I think it's been well publicized and written about, is they -- the Chinese companies were really gearing up pretty hard and didn't want to be out of inventory. So looks like they built some good sized inventory in the first and second quarter so they bought more than they consumed during that quarter. And I think that's a result -- I mean, the reason why there's been so much chatter in the marketplace about what's going on there is they just had too much inventory and I think everybody who's supplying to them, some people will take it all in one quarter, some people will take it over a couple quarters, but I think they just cut back on inventory across the board as far as we could see.

We expect that in our second quarter -- our fourth quarter coming up, the Chinese market's going to recover from where it was this quarter and we expect in Q4 that's going to go up again. So I mean, our sense is that's an important business for us. It's one of the higher margin businesses that we have. We have great customers. We have very strong position on our analog products in that business that our market share is extremely high and that's going to be a very good business for us going forward.

It did cost us a bunch of sales this quarter, relative to the quarter before, and certainly that put pressure on the margins a little bit. But there's every reason to expect that's going to continue to be a very important business, once this inventory correction. And I think for analog, it's just going to be a one quarter correction given the way that it's falling, at least from the forecasts that we now have from the large Chinese customers from this quarter and the first quarter.

Uche Orji - *UBS - Analyst*

Thank you very much.

Operator

Your next question comes from the line of Romit Shah with Barclays Capital.

Romit Shah - *Barclays Capital - Analyst*

Thanks. Hi, Jerry, Dave. Just a question again on utilization. Given that inventories have probably dropped down below 110 days, that's at the low end of where they've been historically and so given that and the fact that your customers an distributors are feeling better about their business, why are we not raising production levels more aggressively?

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

Well, because we don't think we need to. I mean, what we're trying to do in analog now is there's a bunch of different factors. One is we don't want the lead times to extend so we want to make sure we have enough inventory. But I think we have -- we believe we can run the business with less inventory than we used to. So I think it's a balancing act, and we are going to turn it up a little this quarter and we're going to watch it through the quarter and then we'll see what happens.

And if it turns out that the order rates continue to improve at the rates they've been, it's possible we'll turn it up a little bit faster and certainly it depends on the mix of products, how many of those are internal. It really depends on what happens with the industrial business. If it turns out all the increases we see are in other businesses, then that's not going to help our utilization. But that's not what we expect. What we expect, a couple of percent up again in the industrial business next quarter and we're going to set the capacities to follow that trend. And like I said, if it turns out it's better than that, we hope it is, we'll turn it up a little harder.

Romit Shah - *Barclays Capital - Analyst*

Jerry, your guidance for the industrial business in Q4 include automotive?

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

Yes. But it also includes nonautomotive which I think -- , we saw a large increase last quarter in automotive. I don't expect we'll see another very large increase. I think it was up like 20% plus last quarter. So I think a more significant part of the increase in our industrial sales will be more of our traditional industrial products, process control, we're expecting an increase in medical stuff. That's more the traditional stuff that was really -- it was really lopsided this quarter on the automotive side. But I don't think that's going to

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Romit Shah - *Barclays Capital - Analyst*

And that strength in the core industrial business, I know you serviced a lot of customers there, but to the best of your ability are we seeing evidence of real end demand improving or is it just an abatement of inventory reduction?

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

Certainly, the inventory abatement is clear. I mean, that's -- when you talk to those customers, you hear that all the time. I think it varies from customers to customer. There are some customers that are saying, well, it's stable.

There are others that are saying at the margin they're seeing some improvements. Now, the ones that are talking the most about improvements are in Asia compared to the US but I think overall it's a mixture of those two. The more tangible part of that is certainly the fact that our inventory levels got down pretty low but I think there's another part of it that says that people are sniffing around and beginning to buy a little bit more and they're more optimistic and, now, I think -- I don't think they've seen that in terms of their sales yet but I see the -- I believe from the comments we've gotten, they're seeing that in terms of their communications with their customers. And it's very interesting, with many of those customers whereas a quarter or two ago they couldn't get rid of inventory fast enough.

With many of those customers now, they're now concerned that with the more confident view some of their customers have about the future that their inventories are too low. We'll have to see how that comes out over the next quarter or two but that's the reason why we're being a little bit cautious and believe me, it would be very easy to ramp the fabs and put another couple hundred basis points of gross margin on next quarter. I mean, the temptation to do that is great, I can assure you. But I don't think quite yet it's the right time to do that and particularly because of some of the comments and concerns that you're expressing.

Romit Shah - *Barclays Capital - Analyst*

Okay. And just last question from me, this year's been very unseasonal but is the January quarter normally a growth quarter for ADI?

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

Well, it all depends. I mean, what happens in the typical quarter is that the consumer business starts to contract in the first quarter because they bought everything they're going to buy in our fourth quarter and the industrial business, sort of a question of how much vacations people take or not. So typically the first quarter is not a very strong quarter for us but this year it's very atypical and Dave and I have these conversations all the time. I think the next couple of quarters are going to be much more related to secular trends than seasonal trends. And I would expect Q1's going to be the same way this year.

Romit Shah - *Barclays Capital - Analyst*

Okay. Thank you.

Operator

Your next question comes from the line of Craig Ellis with Caris and Company. Mr. Ellis, your line is open. He is unavailable for questions. We will move to the next question. The next question comes from Steve Smigie with Raymond James.

Steve Smigie - *Raymond James - Analyst*

Great. Thank you. I was wondering if you could comment a little bit on the amplifier business. That business seemed a little bit softer in the quarter and then also just generally on converters, it seemed fairly strong.

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

Yes, well, that has to do with which market segments are really moving one way or the other. In the converter business, we sell a lot of converters into the consumer business. We sell converters into cameras and a bunch of other products in consumer areas. That tends to drive that a little bit.

On the amplifier side, as best as we can sort that out for the quarter, it seems like most of that was declines in our base station business where we sell a lot of amplifiers. But the baseline is relatively stable so at the margin these couple of percent increases or decreases per quarter seem to be more relevant to which market segment is growing than anything to do with the products. I mean, those products sold into every market segment, some more so than others. So that's much more a determinant on what happens on a quarter to quarter basis. In the long term, the strength in the product group is important but in the short term it's mostly related to the segments.

Steve Smigie - *Raymond James - Analyst*

And then in terms of the new products you discussed earlier in the call, is there any particular weighting in those new products towards converters versus other products? Can you help us think about where the growth areas might be by product going forward.

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

I mean, they're all over the place. Over the last couple quarters we've introduced a very large amount of power management products after investing in that business for quite a while but on the other hand we introduced a lot of converters, that's our most important business, a lot of amplifiers, a lot of new MEMS products. It's really pretty much across the board. It's not any place that is really sure.

The only place where we've really not had any new products as I mentioned in the computer space for sort of application specific computer products, we're not introducing too many of those. And of course we've decreased our investments in other businesses over the last couple years. So I think it's pretty much across the board of the businesses that are still today strategically relevant to us.

Steve Smigie - *Raymond James - Analyst*

Okay. Great. Thank you very much.

Operator

Your next question comes from the line of Ross Seymore with Deutsche Bank.

Ross Seymore - *Deutsche Bank - Analyst*

Hey, guys. Given the mix dynamic impacting gross margin, can you give us an idea of the range of gross margins within your end market segments?

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

Well, I would say that if I look at the -- I can only talk about standard gross margins right now, but I'd say the range is low 50s to high 70s or low 80s.

Ross Seymore - *Deutsche Bank - Analyst*

Okay.

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

We don't have any segment where the standard gross margins are below 50.

Ross Seymore - *Deutsche Bank - Analyst*

And the hierarchy is about the same, between those four segments, if you could just list those again?

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

The base station business is extremely high. The industrial business is extremely high. The military business is extremely high. And that costs us a little last quarter because military sales were down quite a bit last quarter for us. The consumer business is on the low end of that spectrum, as is the automotive business. And everything else is somewhere in between.

So I think the important take-away about this quarter is I don't think there's any fundamental shift in what the mix is going to be of our products. It was an unusually strong bounceback in consumer and automotive, mostly because they were down so low and they've seen the biggest decreases. I think over time we believe our revenue mix is stable and this quarter it was sort of lopsided. We had the highest margin business go the wrong way by quite a bit and the lowest margin businesses go higher by quite a bit. That many people would love to have in this business so that's the mix.

Ross Seymore - *Deutsche Bank - Analyst*

If I look at the internally produced wafers versus where you use foundry, can you update us on what percentages those are today and where those can go in the next year or so.

David Zinsner - *Analog Devices Inc. - VP Finance, CFO*

They're roughly 50/50 today give or take. I think the expectation is that over time industrial will become a bigger mix of our business again and if that's the case then obviously the utilization internally would start to ramp up.

Ross Seymore - *Deutsche Bank - Analyst*

On the OpEx side of things, last quarter I think you talked about what percentage of the cuts were temporary versus permanent. Can you just walk us through if we should be on the lookout for any of those temporary cost cuts reversing themselves?

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

Actually, some of the temporary is phasing back in in this quarter. And in fact, we're actually finding some offsets to that which is why the expense is only going up by about a percent or two. We're down roughly from peak to trough about $53 million just a little over $20 million was related to bonuses and shutdown expenses, forced time off for our employees. A lot of that stuff is -- a fair amount is phasing back in next quarter. I don't even think that that's a great way to look at our OpEx. I mean, really what we're doing is trying to manage our OpEx going forward to where we really constrain it over time, regardless of what sort of temporary expenses might come back in. This quarter we'll start to formulate our plan, really our five year plan, plus build the first year of that into a budget and I can tell you that Jerry and the team are very, very focused on making sure that OpEx stays in very, very tight control. So that as revenue starts to ramp, as gross margins start to come back, we should start to see really, really nice leverage to the bottom line.

Ross Seymore - *Deutsche Bank - Analyst*

Great. Thank you.

Operator

Your next question comes from the line of David Wu with PC Research.

David Wu - *PC Research - Analyst*

Yes. Good afternoon. I got a question on gross margins. If your mix were normal, and we get back sometime into the second half of fiscal 2010, at let's say $600 million a quarter rate, what should I expect in terms of gross margin, the effect of all the plant consolidation would have been in place, and your industrial will be back to normal percentage of the total. Should we think about high 50s at $600 million kind of run rate or even 60%?

David Zinsner - *Analog Devices Inc. - VP Finance, CFO*

Our expectation, that's part of what I was saying before, our expectation is given our -- if our mix is consistent with what's it's been in the past which we believe it will over time, given the amount of other tailwinds we've got in terms of bad consolidations and the depreciation rolling off, that we really should be in the low 60s.

David Wu - *PC Research - Analyst*

$600 million a quarter?

David Zinsner - *Analog Devices Inc. - VP Finance, CFO*

In that general vicinity. Obviously, mix plays some part of it, but yes.

David Wu - *PC Research - Analyst*

So it's the mix that is much more important than absolute dollar revenue.

David Zinsner - *Analog Devices Inc. - VP Finance, CFO*

Well I think where we are today at 54%, the real issue is getting our fab back in line, getting utilization up and really it's a function of the industrial business coming back. I'd say that's the bigger driver. I guess that is mix.

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

It's also revenue growth. If everything just keeps down but the mix shifts around it's not going to help us much more in the industrial business. So to some degree it's dependent on the absolute dollars of revenues on the industrial and some other market segment that's we build internally as compared to what we build externally.

David Wu - *PC Research - Analyst*

The other thing I was wondering is in terms of OpEx, I assume that this is -- next fiscal year will be one of the years we can have between revenue growth and expense growth. Low single digit.

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

I didn't hear the first part of your question, David.

David Wu - *PC Research - Analyst*

Well, Jerry, if we have double-digit revenue growth for your business next year, next fiscal year, should I think about your OpEx as up only low single digit to support a double-digit topline growth?

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

Well, we'll give you a little more sense of that when we put our plan together, but certainly as Dave and I are thinking about this thing, we're thinking of serious constraints on the OpEx next year, independent of the revenues. So we'll give you a little more guidance on that when we close the plans. We're a little loathe to make a statement on that before we have a plan behind it. I can give you what me, Ed, and Dave said as we start putting together the objectives for the Company for next year.

David Wu - *PC Research - Analyst*

Tax rate will be about 20% next year also, roughly?

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

Yes, in that range.

David Wu - *PC Research - Analyst*

Okay. Great. Thank you.

Operator

Your next question comes from Jim Covello with Goldman Sachs.

Kate Kotlarsky - *Goldman Sachs - Analyst*

Hi, this is Kate Kotlarsky for Jim Covello. My question was on lead times. You had alluded I think during the call that the goal is not to have lead times stretch out. I was just curious if you have seen any change in your lead times yet.

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

Not really. A couple of little things here and there but no I'd say our lead times have been about what they were last quarter. Very short.

Kate Kotlarsky - *Goldman Sachs - Analyst*

Okay. Just a follow-up question, more on the administrative side. In terms of your interest and other expense, you talked about it being an expense in Q4. How should we think about it in fiscal 2010? Do you expect to start generating interest income, kind of as we head into next year?

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

Can you tell us what the interest rates are going to be? I mean, we've got a lot of net cash so the way to think about it is it really depends on -- we have that money very conservatively invested. That's the bad news. The good news is we haven't lost any of it which is the real goal and so I think it really depends on interest rates. If short-term rates or secure rates begin to move up, we'll do better. If they stay at approximately zero, probably not.

Kate Kotlarsky - *Goldman Sachs - Analyst*

Okay. Thank you. That's it from me.

Operator

Your next question comes from Tristan Gerra with Robert Baird.

Tristan Gerra - *Robert W Baird - Analyst*

Based on your order visibility, do you expect your third quarter to be front end loaded or back end loaded from a shipment standpoint?

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

I think it will be about linear. Most of our quarters are. And there's no reason to think this quarter will be much different than that. I mean, the backlog is good starting out. The first couple of weeks in August looked pretty good. So I would expect that it will be relatively linear.

Tristan Gerra - *Robert W Baird - Analyst*

Okay. And then regarding your utilization rates and I understand that you're still ramping capacity this quarter a bit less than end demand as you reduce slightly inventory. End demand is picking up now but let's assume there is weakness again next year. What room do you have for additional potential cuts in output versus what you've done so for in terms of consolidation.

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

Well, I think there's always new things and I don't want to sort of speculate on hypotheticals here. But I think what we've demonstrated is that when the revenues went down 20, 25%, we dropped the OpEx by similar amounts and I think we're sort of committed to those kind of things, so we'll respond if we have to in a way that's responsible, just like we did in this cycle. As I look at it, and see what we've been able to do during this cycle in terms of getting the costs down, I think we did a pretty good job of that and people in the Company did a pretty good job of that, and I think we did a better job than historically we've been known to do as the cycles have gone down. So I think we'll have to wait and see how that turns out.

Tristan Gerra - *Robert W Baird - Analyst*

Great. Thank you.

Operator

Your next question comes from the line of Chris Danely with JPMorgan.

Chris Danely - *JPMorgan - Analyst*

Thanks, guys. Jerry, can you just give us your sense on how you see the end markets progressing going forward here? Do you think that we're done with the inventory restocking in consumer, and now we're going to start in industrial or just sort of how you expect the recovery to play out now that we've bottomed?

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

Well, I mean, I think there's still more restocking to go on in the industrial business, because I think we commented on this last time that our sales into the industrial market were down 30 some odd percent and our customers' business wasn't down 30 some odd percent. So I think that there's probably some more to go in the industrial business and it seems like in the consumer business, the inventory levels were okay and now in the communications infrastructure business, the inventory levels seem to be okay. So I think in the industrial market of course, the recovery has lagged those markets a little bit so we're hoping that that sort of continues and we can get back to more rational levels of production for the industrial customers over the next couple of quarters. But we'll have to wait and see how that really turns out.

Chris Danely - *JPMorgan - Analyst*

Sure. And so I guess you think that industrial won't be sort of this one quarter pop, it will be more spread out over the next couple quarters?

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

That's my belief, because we're still operating at numbers that are well, well, well below where we were four quarters ago. And we've -- we're enthusiastic that we've seen the beginnings of a recovery but we haven't seen a lot of it yet. And our hope is that that continues for the next couple of quarters. But I think it will be more gradual than, say, the recovery in consumer automotive, yes. That's what I believe.

Chris Danely - *JPMorgan - Analyst*

And then as my follow-up, when you talk to the distributors, how is their behavior these days? Are they ready to start restocking a little bit of certain products yet or do you still see them looking to take down inventory?

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

No, I think this was the first quarter, if I'm correct about this, correct me if I'm wrong where distributors inventory didn't go down. It had gone down quite a bit before. So I think at the margin, they seem to be as much concerned that they're going to miss the next cycle on the up side as they're going to wind up with too much inventory on the down side. So I think distributors are going to demonstrate the usual patterns of they want to be on the right side of the cycle and I sense that they're trying to get on the right side of the cycle, being that they expect some growth coming up in the next couple of quarters.

Chris Danely - *JPMorgan - Analyst*

Got it. Thanks a lot.

Operator

Your next question comes from the line of Terence Whalen with Citi.

Terence Whalen - *Citigroup - Analyst*

Thanks for taking my question. I think a lot of the blocking and tackling's already been done. If I could revisit the topic of gross margin, not with regard to the October quarter but the January quarter, it sounds like we could get an increase in utilization as sort of maybe consumer begins to pull back in the January quarter and as industrial begins to build in the first half. If I'm to think about sort of the levers between utilization and mix and I know they're correlated, which is going to be the dominant driver to drive gross margin? And I think it might have been Jerry, you had said we could get it up a couple points and I think Dave, you earlier said it's going to increase at a faster rate than the 90 bips in October. Can you just sort of put those together and help me understand that a little bit better?

David Zinsner - *Analog Devices Inc. - VP Finance, CFO*

Yes, so, I think it's tough to say. Really, they're almost so correlated together. When industrial mix improves, it also improves our utilization which thus improves our gross margin. Industrial is a pretty big component of our gross margins and I think

Jerry's right in that I don't know that seasonality is a really big component but if you believe that we're in the beginnings of recovery in industrial and industrial starts to improve again in the first quarter, then we'll clearly see gross margin improvement in the first quarter.

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

Plus, we have some tailwinds from some of the restructuring things that Dave talked about which ought to start to appear sometime in first or second quarters. So, I mean, we're more optimistic about the gross margins than we've been in a while because some of these improvements are already dialed in and they're going to happen unless the world falls off a cliff completely. And others are going to be dependent on the mix and the industrial business coming better utilization but others are going -- these are serious cost reductions and serious consolidations that we've done and the capital spending, I mean, when you're spending what we're spending now, eventually it starts matching depreciation. So I don't know. I mean, we have a lot of tailwinds on this thing and I don't think we have many headwinds on the gross margin because I think the mix is going to revert back to the historical mix of the Company. There's no reason to believe it's going to get lopsided toward consumer or automotive which carries somewhat lower gross margin. I think when you add it all up, of the 10,000 products and 100,000 customers we sell to, we think the mix is going to be about the same when it's all said and done.

Terence Whalen - *Citigroup - Analyst*

Okay. Thanks. As my follow-up, related to that, can you talk a little bit about the consumer business. It's not a business I have great visibility into. I typically think of things like digital still camera and things like home audio and video. Can you just revisit that segment again and that is a segment that would decline just naturally with seasonality in January or would that be April? Thanks.

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

Typically, what happens is in the consumer business, customers order up which is why our fourth quarter is usually reasonably good consumer quarter before the holidays and then all of a sudden it comes the first quarter and they realize either they sold not enough or too many and make adjustments. Then the Chinese New Year comes in February so I'd say our fourth quarter is probably going to be our peak consumer quarter as a percentage of revenues. At least that's our planning assumption going forward.

Terence Whalen - *Citigroup - Analyst*

And then granularity on the revenues, if you could help us with that a little bit, just to get a feel for what applications are really driving growth there?

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

Certainly, for many years, we've had a very strong position in the camera business. We've developed strong position in segments of the high definition TV business. Not so much related to the signal process, the big digital processors which we don't do but a lot of the peripheral functions that are in TVs, HDMI and other things. We have a MEMS business which has a consumer content of it. We're starting to build microphones for consumer products and those look like they're going to be very successful products.

So it's -- we have a lot of audio, very high end audio products into the consumer mix, so what we try to do in the consumer business is focus on the applications where what we do really changes the sight, the sound or the experience and not spend much resources focusing on things that rapidly . We have are a lot of rules we are putting in place in analog about what kind of consumer applications we're after and our sense increasingly is the way you see the quality of the technology in consumer products is you look at the gross margin. And if people aren't willing to pay anything for it, it may be great stuff but it's not worth much. So if it makes a big difference for the customer, if they can get more money for it in their end product, then those are good applications for us and if they're not they're not very useful for

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Terence Whalen - *Citigroup - Analyst*

Appreciate the thoughts. Thanks and good luck.

Operator

Your next question comes from the line of David Wong with Wells Fargo.

David Wong - *Wells Fargo - Analyst*

Thank you very much. You mentioned just now that you were somewhat less interested in the computer end market. Can you tell us what segments both in terms of product type converters or so on or the end markets you are particularly interested in and channeling your R&D dollars?

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

Well, certainly the industrial market has been a gold mine for analog for many years. It's highly fragmented. There's thousands and thousands of customers, life cycles are long, the margins are high. It's sort of like a perfect business school example of a great business to be in. We have a brand that sells the products, customers call us first. That's a great business.

And if we let the R&D drift away from that business, we would be total fools, in my opinion. The communications -- segment of the communications business have been very, very good businesses for us. The base station business certainly, many other parts of communications infrastructure have been good businesses for us. Even though we've withdrawn from the base band processor and the handsets, many of the smart phones and other things have a lot of good analog functionality attached to them.

You've probably seen if you use those phones. We get paid for that functionality in the higher end phones and of course many high end consumer products are very -- they're bundles of signal processing technology that impact sound and what you hear and so on. So I think we look to the computer market a year or two ago and the rate of commoditization is high. We sold the business that was building power management products for PCs. We just didn't see where the value of that was for Analog Devices and we just look inside a personal computer today and we just don't see a lot of functions where our products can really make a consumer buy a particular PC or not. And our experience is if you can't say that then it's not a very valuable business for us.

David Wong - *Wells Fargo - Analyst*

Right. Thanks.

Operator

Your next question comes from the line of Stacy Rasgon with Sanford Bernstein.

Stacy Rasgon - *Sanford Bernstein - Analyst*

Thanks for taking my question. I had a question on industrial and auto. So you said that -- I know auto was up tremendously in the quarter. You said it was driven in part by strength in Europe. I note that Europe was still flat. North America was down. Is it fair to say that industrial as a whole in the US and Europe was actually down in the quarter?

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

I don't think so. I think they were about flat.

Stacy Rasgon - *Sanford Bernstein - Analyst*

About flat.

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

There were obviously some other things there. I mean, the automotive business in Europe isn't all that large that it carries a huge amount of weight on the revenues, so, I'm mean, our automotive sales are 7 or 8% of our total sales, so I don't think those numbers are determinative to the total right now.

Stacy Rasgon - *Sanford Bernstein - Analyst*

Recently you're hearing more positive feedback in the industrial is coming out of Asia. Are you hearing anything positive at all coming out of North America and Europe? I would assume that the bulk of your industrial sales are still in the US and in Europe.

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

Yes, they are. And that's changing but it's going to take a while for them to equal what's going on in the US and Europe, given the position we have. As we talked to US and European customers, they're at the margin more optimistic. They're cautious. I think their optimism, what form I heard personally, more related to 2010 than 2009, at least our 2010, which begins in November. So I mean, I think that business is going to come back.

I mean, the US industrial world is under pressure but it's not under the kind of pressure that we've seen in our orders through industrial -- from industrial customers. So the US isn't completely dead yet, although we'll have to see how all the policies and practices that people are talking about actually impacts US industrial companies. But I think at the margin, you hear for most of the customers and you guys listen to the reports of those customers, at the margin they're a little bit more optimistic. And I think that we've seen the cycles before and this one certainly is a lot worse than others but these things come back and it takes a while and the industrial market always comes back a little slower than some of the more faster moving markets like handsets an PCs and so on but it's going to come back. It's just going to come back more gradually on the other markets.

Stacy Rasgon - *Sanford Bernstein - Analyst*

On the strength you're seeing in industrial in Asia, how much of that do you think is being driven by government stimulus spending and how sustainable do you think it is going forward.

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

I think some of it clearly is. But our industrial sales in China were growing at a pretty good clip before anyone decided to put more money into it. That's a franchise that if it was just stimulus, we wouldn't see much because the design cycles of some of those products can be two or three years. So our sense is yes, that's helping at the margin a little bit but it's a base of business that we've been building for the last two or three years, well before stimulus became fashionable.

Stacy Rasgon - *Sanford Bernstein - Analyst*

Thanks, guys.

Operator

Your next question comes from Sumit Dhanda with Bank of America/Merrill Lynch.

Sumit Dhanda - *BAS-ML - Analyst*

Yes, hi. Couple quick questions. Dave, just a question on the utilization rates. Are you actually taking a period charge given the low levels of utilization and does that persist and if you could quantify that charge, if there is one?

David Zinsner - *Analog Devices Inc. - VP Finance, CFO*

Well, I mean, we're certainly under-absorbing our expenses within our manufacturing. What was your second question?

Sumit Dhanda - *BAS-ML - Analyst*

Right. I guess the question was but are you expensing that as a period charge in the same quarter as opposed to the impact of the under-absorption flowing through the --

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David Zinsner - *Analog Devices Inc. - VP Finance, CFO*

All this kind of works its way through inventory.

Sumit Dhanda - *BAS-ML - Analyst*

Okay. The second question I had for you, Jerry, was any more thoughts on the convert which occurred I guess during the course of the second -- of the July quarter?

David Zinsner - *Analog Devices Inc. - VP Finance, CFO*

The convert?

Sumit Dhanda - *BAS-ML - Analyst*

Meaning in terms of strategically what's the thought process behind it?

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

We did a straight debt financing for $375 million the -- that's a fixed five year fixed note. We wound up swapping it for a floating rate given all the cash we have so if interest rates go up, we've got plenty of interest we're going to get on the other side. The thought with that was actually very simple. It was that a large part of our cash balance is offshore. We don't really want to bring it back right now. And we were relatively committed to the US dividend. So we just wanted to build a little more cushion in to whatever happens that we don't have to think about that and that was why we did it. We wound up with an eight credit so we wound up being able to borrow money at very low rates, very quickly, I would say and there was a lot of competition for those bonds which is why the pricing came out where it did. It was more of an insurance policy than anything else, given that the world's a very uncertain place and it became available and the rates look good and the demand was very high.

Sumit Dhanda - *BAS-ML - Analyst*

Okay. That's it. Thank you so much.

Operator

Your next question comes from Craig Ellis with Caris and Company.

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

Are you there, Craig?

Operator

Mr. Ellis, your line is open.

Craig Ellis - *Caris & Co - Analyst*

Can you hear me?

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

Yes.

Craig Ellis - *Caris & Co - Analyst*

Okay. Thanks, Jerry. Just to follow up on the operating expense issue, you guys have done a very good job bringing down OpEx structurally. And I you don't want to give particular guidance for next year specifically. But as you look at the operating expense structure that you now have, do you continue to see opportunity for structural improvement or with the work that you've done this year, have you really exhausted the opportunities that you think exist in the model?

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

No, I think there's more opportunities. I think we're -- Dave and I have come out on this thing together, is that we went into this cycle with the operating expenses too high in the Company, even at the revenue levels when they were $650 million a quarter.

So we've been banging on this whole question pretty hard for the better part of a year and-a-half or two years. Some of that is getting out of businesses where the OpEx ratios were absurd relative to the returns.

Other parts of it are just tightening up a lot of things around the Company. I think those, what we're communicating around analog is that's not a one-time thing that we only do when business is bad. We believe we have a lot of OpEx leverage in this Company that we can get with tenacity and we understand the implications of getting that leverage on what our stock is worth ultimately. So we're going to work hard to get that leverage and we've done some things, there's more to do. There's lots of different things we can do to tighten up the expense structure of the Company.

We continuously look at businesses more critically for those that are either because the competition's changed, the market structure's changed, some cases we didn't get the products out in time, products aren't any good, to look at these businesses very often and say is this still meeting our strategic intent or the intent for getting into those businesses to begin with, there's lots of ways to tighten up the R&D process in the Company, selling process, the administrative processes in the Company and we're continuously working on all of those. We haven't called the dogs off yet. And I don't expect we will next year either.

Craig Ellis - *Caris & Co - Analyst*

Good. Keep the dogs going at it.

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

We've got a lot of big dogs barking at us on the operating expenses.

Craig Ellis - *Caris & Co - Analyst*

Good. Relatedly, when you shut down the two fabs, is there any incremental savings in the middle of the income statement or does it all flow into COGS.

David Zinsner - *Analog Devices Inc. - VP Finance, CFO*

I think most of it flows into COGS. There is a little bit within the IT and R&D function that does come out too but it's relatively small.

Craig Ellis - *Caris & Co - Analyst*

Okay. Thanks, guys.

Operator

Your final question will come from the line of Mark Lipacis with Morgan Stanley.

Mark Lipacis - *Morgan Stanley - Analyst*

Thanks for taking my questions. Two questions. First, the impact, when you shut down a factory, is the impact to gross margins purely a function of the cost savings that you discussed or are there puts and takes incrementally either positive or negative associated with ramp production of new products of a new factory, improving yields of yield hiccups as you're ramping the new products.

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

Our experience has been when you start ramping down a fab, and ramping it up, the locations you wind up with cost increases in the interim because the yields -- people stop focusing on it. You have just problems. These aren't large numbers, but I think at the margin, it costs you a little bit of margin while you're doing it, but once you do it and you're done and you've got a group of people that are now focused on yield improvement on those products in the location where the products are actually going to be built, you see a very rapid turnaround in that, at least that's been our experience in doing these things before. I mean, is that -- ?

David Zinsner - *Analog Devices Inc. - VP Finance, CFO*

That's accurate.

Mark Lipacis - *Morgan Stanley - Analyst*

Fair enough. A follow-up question is with the inventory days coming down, I have to believe that the effective lead times nudged up a little bit and the question for you, Jerry, in your experience, is extending lead times translate to double ordering on a linear basis? As the lead times go up, there's more propensity for customers, distributors to double order or is more like a step function, say you hit lead times of 10, 12, 14, 16 weeks or something like that and then at some magical threshold you get a step function and double ordering?

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

I think it winds up being more of a step function than you think. It's not based on lead time for this product going from four weeks to five weeks or three weeks to four weeks. It's based on a general fear that develops in the industry when they hear of shortages and that fear in the Internet age usually you see within a period of one or two months. I mean, certainly we saw the inverse fear when the world collapsed on us. In a very, very short period of time everybody panicked and stopped ordering everything. I think there are trigger points on that.

The response of the market to perceived shortages is usually quite rapid, in my experience. And but I don't think we're seeing that. I mean, at least for our type of products, I don't think any of our competitors are really stretched out the lead times. I don't think there's any -- I don't get any calls from customers, worrying about this. So I think at the margin, lead times are under pretty good control. At least at this point.

Mark Lipacis - *Morgan Stanley - Analyst*

Fair enough. Thanks a lot.

Operator

There are no further questions. You may proceed with your presentation.

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

Well, we would just like to thank everyone for your participation today. We really appreciate you joining us and we look forward to talking with all of you again when we report our fourth quarter and fiscal year end results on Monday, November 23rd after the market closes. Thank you very much and have a great day.

Operator

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