
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 4, 2019
OR

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

For the transition period from _____ to _____
Commission File No. 1-7819

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

Massachusetts

(State or other jurisdiction of incorporation or organization)

One Technology Way, Norwood, MA

(Address of principal executive offices)

04-2348234

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

02062-9106

(Zip Code)

(781) 329-4700

(Registrant's telephone number, including area code)

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

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 | <input checked="" type="checkbox"/> | Accelerated filer | <input type="checkbox"/> |
| Non-accelerated filer | <input type="checkbox"/> | Smaller reporting company | <input type="checkbox"/> |
| | | Emerging growth company | <input type="checkbox"/> |

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 4, 2019 there were 369,761,227 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 4, 2019 | May 5, 2018 (2) | May 4, 2019 | May 5, 2018 (2) |
| Revenue | \$ 1,526,602 | \$ 1,563,502 | \$ 3,067,703 | \$ 3,130,372 |
| Cost of sales (1) | 492,510 | 491,112 | 993,955 | 986,299 |
| Gross margin | 1,034,092 | 1,072,390 | 2,073,748 | 2,144,073 |
| Operating expenses: | | | | |
| Research and development (1) | 285,846 | 289,472 | 573,228 | 578,069 |
| Selling, marketing, general and administrative (1) | 163,128 | 172,146 | 330,470 | 349,054 |
| Amortization of intangibles | 107,261 | 107,129 | 214,585 | 214,148 |
| Special charges | 8,162 | 1,089 | 29,944 | 58,407 |
| | 564,397 | 569,836 | 1,148,227 | 1,199,678 |
| Operating income | 469,695 | 502,554 | 925,521 | 944,395 |
| Nonoperating expense (income): | | | | |
| Interest expense | 59,701 | 64,792 | 118,429 | 132,822 |
| Interest income | (2,928) | (1,912) | (5,616) | (4,004) |
| Other, net | 4,525 | (451) | 4,365 | 105 |
| | 61,298 | 62,429 | 117,178 | 128,923 |
| Income before income taxes | 408,397 | 440,125 | 808,343 | 815,472 |
| Provision for income taxes | 40,460 | 39,797 | 85,400 | 121,904 |
| Net income | \$ 367,937 | \$ 400,328 | \$ 722,943 | \$ 693,568 |
| Shares used to compute earnings per common share – basic | 369,246 | 370,384 | 368,974 | 369,685 |
| Shares used to compute earnings per common share – diluted | 373,342 | 374,778 | 372,912 | 374,430 |
| Basic earnings per common share | \$ 0.99 | \$ 1.08 | \$ 1.95 | \$ 1.87 |
| Diluted earnings per common share | \$ 0.98 | \$ 1.06 | \$ 1.93 | \$ 1.84 |
| (1) Includes stock-based compensation expense as follows: | | | | |
| Cost of sales | \$ 5,389 | \$ 3,820 | \$ 10,473 | \$ 8,041 |
| Research and development | \$ 19,567 | \$ 22,018 | \$ 38,492 | \$ 41,746 |
| Selling, marketing, general and administrative | \$ 15,273 | \$ 13,076 | \$ 27,657 | \$ 27,029 |

(2) Balances have been restated to reflect the full retrospective adoption of Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (ASU 2014-09). See Note 1, *Basis of Presentation*, in the Notes to Condensed Consolidated Financial Statements.

See accompanying notes.

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

| | Three Months Ended | | Six Months Ended | |
|---|--------------------|--------------------|-------------------|--------------------|
| | May 4, 2019 | May 5, 2018 (1) | May 4, 2019 | May 5, 2018 (1) |
| Net income | \$ 367,937 | \$ 400,328 | \$ 722,943 | \$ 693,568 |
| Foreign currency translation adjustments | (3,428) | (3,419) | (112) | 6,752 |
| Change in fair value of available-for-sale securities | 5 | 5 | 15 | 3 |
| Change in fair value of derivative instruments designated as cash flow hedges (net of taxes of \$3,802, \$771, \$10,183 and \$1,323, respectively) | (14,912) | (6,613) | (37,850) | 1,737 |
| Changes in pension plans including transition obligation, net actuarial loss and foreign currency translation adjustments (net of taxes of \$63, \$99, \$126 and \$202, respectively) | 335 | 1,373 | 366 | (144) |
| Other comprehensive (loss) income | (18,000) | (8,654) | (37,581) | 8,348 |
| Comprehensive income | <u>\$ 349,937</u> | <u>\$ 391,674</u> | <u>\$ 685,362</u> | <u>\$ 701,916</u> |

(1) Balances have been restated to reflect the full retrospective adoption of Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (ASU 2014-09). See Note 1, *Basis of Presentation*, in the Notes to Condensed Consolidated Financial Statements.

See accompanying notes.

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

| | May 4, 2019 | November 3, 2018 (1) |
|---|----------------------|----------------------|
| ASSETS | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 713,601 | \$ 816,591 |
| Accounts receivable | 685,978 | 639,717 |
| Inventories (2) | 608,085 | 586,760 |
| Prepaid income tax | 2,935 | 3,196 |
| Prepaid expenses and other current assets | 69,890 | 65,862 |
| Total current assets | <u>2,080,489</u> | <u>2,112,126</u> |
| Property, Plant and Equipment, at Cost | | |
| Land and buildings | 903,378 | 873,186 |
| Machinery and equipment | 2,560,573 | 2,478,032 |
| Office equipment | 82,706 | 76,233 |
| Leasehold improvements | 147,253 | 100,374 |
| | <u>3,693,910</u> | <u>3,527,825</u> |
| Less accumulated depreciation and amortization | 2,482,443 | 2,373,497 |
| Net property, plant and equipment | <u>1,211,467</u> | <u>1,154,328</u> |
| Other Assets | | |
| Deferred compensation plan investments | 42,661 | 39,853 |
| Other investments | 31,616 | 28,730 |
| Goodwill | 12,250,370 | 12,252,604 |
| Intangible assets, net | 4,489,182 | 4,778,192 |
| Deferred tax assets | 1,610,109 | 9,665 |
| Other assets | 60,431 | 62,868 |
| Total other assets | <u>18,484,369</u> | <u>17,171,912</u> |
| | <u>\$ 21,776,325</u> | <u>\$ 20,438,366</u> |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current Liabilities | | |
| Accounts payable | \$ 208,243 | \$ 260,919 |
| Income taxes payable | 124,356 | 93,722 |
| Debt, current | 374,165 | 67,000 |
| Accrued liabilities | 658,271 | 630,107 |
| Total current liabilities | <u>1,365,035</u> | <u>1,051,748</u> |
| Non-current liabilities | | |
| Long-term debt | 5,612,365 | 6,265,674 |
| Deferred income taxes | 2,228,822 | 990,409 |
| Deferred compensation plan liability | 42,661 | 39,846 |
| Income taxes payable | 647,714 | 710,179 |
| Other non-current liabilities | 137,470 | 112,337 |
| Total non-current liabilities | <u>8,669,032</u> | <u>8,118,445</u> |
| 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, 369,761,227 shares outstanding (370,159,553 on November 3, 2018) | 61,628 | 61,694 |
| Capital in excess of par value | 5,117,202 | 5,282,222 |
| Retained earnings | 6,659,449 | 5,982,697 |
| Accumulated other comprehensive loss | (96,021) | (58,440) |
| Total shareholders' equity | <u>11,742,258</u> | <u>11,268,173</u> |
| | <u>\$ 21,776,325</u> | <u>\$ 20,438,366</u> |

(1) Balances have been restated to reflect the full retrospective adoption of Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (ASU 2014-09). See Note 1, *Basis of Presentation*, in the Notes to Condensed Consolidated Financial Statements.

(2) Includes \$6,982 and \$7,128 related to stock-based compensation at May 4, 2019 and November 3, 2018, respectively.

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) Income |
| | 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) Income |
| | 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 (see Note 1) | | | | 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* (ASU 2014-09). See Note 1, *Basis of Presentation*, in the Notes to Condensed Consolidated Financial Statements.

See accompanying notes.

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

| | Three Months Ended May 5, 2018 | | | | |
|--|--------------------------------|-----------|--------------------------------------|----------------------|--|
| | Common Stock | | Capital in Excess of Par Value | Retained Earnings | Accumulated Other Comprehensive (Loss) Income |
| | Shares | Amount | | | |
| BALANCE, FEBRUARY 3, 2018 (1) | 369,804 | \$ 61,635 | \$ 5,318,109 | \$ 5,305,545 | \$ (44,357) |
| Net income | | | | 400,328 | |
| Dividends declared and paid - \$0.48 per share | | | | (178,282) | |
| Issuance of stock under stock plans and other | 1,324 | 221 | 27,524 | | |
| Stock-based compensation expense | | | 38,914 | | |
| Other comprehensive loss | | | | | (8,654) |
| Common stock repurchased | (231) | (39) | (21,939) | | |
| BALANCE, MAY 5, 2018 | 370,897 | \$ 61,817 | \$ 5,362,608 | \$ 5,527,591 | \$ (53,011) |
| | Six Months Ended May 5, 2018 | | | | |
| | Common Stock | | Capital in Excess of Par Value | Retained Earnings | Accumulated Other Comprehensive (Loss) Income |
| | Shares | Amount | | | |
| BALANCE, OCTOBER 28, 2017 (1) | 368,636 | \$ 61,441 | \$ 5,250,519 | \$ 5,179,024 | \$ (61,359) |
| Net income | | | | 693,568 | |
| Dividends declared and paid - \$0.93 per share | | | | (345,001) | |
| Issuance of stock under stock plans and other | 2,575 | 429 | 65,128 | | |
| Stock-based compensation expense | | | 76,816 | | |
| Other comprehensive income | | | | | 8,348 |
| Common stock repurchased | (314) | (53) | (29,855) | | |
| BALANCE, MAY 5, 2018 | 370,897 | \$ 61,817 | \$ 5,362,608 | \$ 5,527,591 | \$ (53,011) |

(1) Balances have been restated to reflect the full retrospective adoption of Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (ASU 2014-09). See Note 1, *Basis of Presentation*, in the Notes to Condensed Consolidated Financial Statements.

See accompanying notes.

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

| | Six Months Ended | |
|---|------------------|-----------------|
| | May 4, 2019 | May 5, 2018 (1) |
| Cash flows from operating activities: | | |
| Net income | \$ 722,943 | \$ 693,568 |
| Adjustments to reconcile net income to net cash provided by operations: | | |
| Depreciation | 117,435 | 113,004 |
| Amortization of intangibles | 284,525 | 285,004 |
| Stock-based compensation expense | 76,622 | 76,816 |
| Non-cash portion of special charge | 4,367 | — |
| Deferred income taxes | (21,843) | (705,640) |
| Other non-cash activity | 18,429 | 10,104 |
| Changes in operating assets and liabilities | (159,829) | 634,326 |
| Total adjustments | 319,706 | 413,614 |
| Net cash provided by operating activities | 1,042,649 | 1,107,182 |
| Cash flows from investing activities: | | |
| Additions to property, plant and equipment | (166,202) | (117,122) |
| Payments for acquisitions, net of cash acquired | — | (52,339) |
| Changes in other assets | (4,585) | (1,029) |
| Net cash used for investing activities | (170,787) | (170,490) |
| Cash flows from financing activities: | | |
| Proceeds from debt | — | 743,778 |
| Proceeds from revolver | 75,000 | — |
| Payments on revolver | (75,000) | — |
| Debt repayments | (350,000) | (1,620,000) |
| Dividend payments to shareholders | (377,217) | (345,001) |
| Repurchase of common stock | (328,615) | (29,908) |
| Proceeds from employee stock plans | 86,907 | 65,557 |
| Contingent consideration payment | (4,000) | (542) |
| Changes in other financing activities | (2,144) | 7,945 |
| Net cash used for financing activities | (975,069) | (1,178,171) |
| Effect of exchange rate changes on cash | 217 | 158 |
| Net decrease in cash and cash equivalents | (102,990) | (241,321) |
| Cash and cash equivalents at beginning of period | 816,591 | 1,047,838 |
| Cash and cash equivalents at end of period | \$ 713,601 | \$ 806,517 |

(1) Balances have been restated to reflect the full retrospective adoption of Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (ASU 2014-09). See Note 1, *Basis of Presentation*, in the Notes to Condensed Consolidated Financial Statements.

See accompanying notes.

ANALOG DEVICES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED MAY 4, 2019
(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 3, 2018 (fiscal 2018) 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 November 2, 2019 (fiscal 2019) 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. Fiscal 2019 is a 52-week fiscal year and fiscal 2018 was a 53-week fiscal year. The additional week in fiscal 2018 was included in the first quarter ended February 3, 2018. Therefore, the first six months of fiscal 2019 included one less week of operations as compared to the first six months of fiscal 2018. Certain amounts reported in previous periods have been reclassified to conform to the fiscal 2019 presentation.

As further discussed in Note 2, *Revenue Recognition* and Note 13, *New Accounting Pronouncements*, the Company adopted the Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (ASU 2014-09), in the first quarter of fiscal 2019. The two permitted transition methods under the new standard are the full retrospective method, in which case the standard would be applied to each prior reporting period presented and the cumulative effect of applying the standard would be recognized at the earliest period showing, or the modified retrospective method, in which case the cumulative effect of applying the standard would be recognized as of the date of initial application. The Company adopted ASU 2014-09 using the full retrospective method and applied the practical expedient, in which the Company is not required to disclose the amount of consideration allocated to any remaining performance obligations or an explanation of when the Company expects to recognize that amount as revenue for all reporting periods presented before the date of the initial application.

As a result of the adoption of ASU 2014-09, the Company changed its accounting policy for revenue recognition and recognizes revenue from product sales to its customers and distributors when title passes, which is generally upon shipment. Prior to the adoption of ASU 2014-09, revenue and the related cost of sales on shipments to certain distributors were deferred until the distributor resold the products to their end customers. See Note 2, *Revenue Recognition*, in these Notes to Condensed Consolidated Financial Statements for the details of the Company's revenue recognition policies. The adoption of ASU 2014-09 impacted the Company's condensed consolidated statements of income and balance sheets but did not impact its condensed consolidated statements of cash flows, with the exceptions of net income and reclassifications within adjustments to reconcile net income to cash provided by operations, and did not impact the condensed consolidated statement of shareholders' equity, with the exceptions of retained earnings and net income. As shown in the tables below, pursuant to the guidance in ASU 2014-09, the Company restated its historical financial results to be consistent with the standard. Accordingly, the amounts for all periods presented in this Form 10-Q reflect the impact of ASU 2014-09.

Condensed Consolidated Statement of Income**Three Months Ended May 5, 2018**

| | As Reported | Impact of Adoption | As Adjusted |
|--|--------------------|---------------------------|--------------------|
| Revenue | \$ 1,513,053 | \$ 50,449 | \$ 1,563,502 |
| Cost of sales | 479,241 | 11,871 | 491,112 |
| Gross margin | 1,033,812 | 38,578 | 1,072,390 |
| Operating expenses: | | | |
| Research and development | 289,472 | — | 289,472 |
| Selling, marketing, general and administrative | 172,146 | — | 172,146 |
| Amortization of intangibles | 107,129 | — | 107,129 |
| Special charges | 1,089 | — | 1,089 |
| | 569,836 | — | 569,836 |
| Operating income | 463,976 | 38,578 | 502,554 |
| Nonoperating expense (income): | | | |
| Interest expense | 64,792 | — | 64,792 |
| Interest income | (1,912) | — | (1,912) |
| Other, net | (451) | — | (451) |
| | 62,429 | — | 62,429 |
| Income before income taxes | 401,547 | 38,578 | 440,125 |
| Provision for income taxes | 21,716 | 18,081 | 39,797 |
| Net income | \$ 379,831 | \$ 20,497 | \$ 400,328 |
| Shares used to compute earnings per common share – basic | 370,384 | — | 370,384 |
| Shares used to compute earnings per common share – diluted | 374,778 | — | 374,778 |
| Basic earnings per common share | \$ 1.02 | \$ 0.06 | \$ 1.08 |
| Diluted earnings per common share | \$ 1.01 | \$ 0.05 | \$ 1.06 |

Condensed Consolidated Statement of Income

Six Months Ended May 5, 2018

| | As Reported | Impact of Adoption | As Adjusted |
|--|--------------|--------------------|--------------|
| Revenue | \$ 3,031,677 | \$ 98,695 | \$ 3,130,372 |
| Cost of sales | 962,675 | 23,624 | 986,299 |
| Gross margin | 2,069,002 | 75,071 | 2,144,073 |
| Operating expenses: | | | |
| Research and development | 578,069 | — | 578,069 |
| Selling, marketing, general and administrative | 349,054 | — | 349,054 |
| Amortization of intangibles | 214,148 | — | 214,148 |
| Special charges | 58,407 | — | 58,407 |
| | 1,199,678 | — | 1,199,678 |
| Operating income | 869,324 | 75,071 | 944,395 |
| Nonoperating expense (income): | | | |
| Interest expense | 132,822 | — | 132,822 |
| Interest income | (4,004) | — | (4,004) |
| Other, net | 105 | — | 105 |
| | 128,923 | — | 128,923 |
| Income before income taxes | 740,401 | 75,071 | 815,472 |
| Provision for income taxes | 92,398 | 29,506 | 121,904 |
| Net income | \$ 648,003 | \$ 45,565 | \$ 693,568 |
| Shares used to compute earnings per common share – basic | 369,685 | — | 369,685 |
| Shares used to compute earnings per common share – diluted | 374,430 | — | 374,430 |
| Basic earnings per common share | \$ 1.75 | \$ 0.12 | \$ 1.87 |
| Diluted earnings per common share | \$ 1.72 | \$ 0.12 | \$ 1.84 |

The impact on the Company's previously reported condensed consolidated balance sheet line items is as follows:

| | November 3, 2018 | | |
|---|------------------|--------------------|--------------|
| | As Reported | Impact of Adoption | As Adjusted |
| Deferred tax assets | \$ 21,078 | \$ (11,413) | \$ 9,665 |
| Deferred income on shipments to distributors, net | \$ 487,417 | \$ (487,417) | \$ — |
| Accrued liabilities | \$ 497,080 | \$ 133,027 | \$ 630,107 |
| Deferred income taxes | \$ 927,065 | \$ 63,344 | \$ 990,409 |
| Retained earnings | \$ 5,703,064 | \$ 279,633 | \$ 5,982,697 |

In addition, in the first quarter of fiscal 2019, the Company adopted ASU 2016-16, *Income Taxes (Topic 740)* (ASU 2016-16) using the modified retrospective method with a cumulative-effect adjustment directly to retained earnings. ASU 2016-16 requires an entity to recognize the income tax consequences of an intra-entity transfer of an asset, other than inventory, when the transfer occurs. The adoption of ASU 2016-16 resulted in the following cumulative-effect increase in the Company's deferred tax assets, deferred tax liabilities and retained earnings as follows:

| | November 4, 2018 | | |
|-----------------------|--|--------------------------------------|-----------------------------|
| | Beginning Balance November 3, 2018 as Adjusted | Impact of Adoption of ASU 2016-16 | Balance November 4, 2018 |
| Deferred tax assets | \$ 9,665 | \$ 1,655,129 | \$ 1,664,794 |
| Deferred income taxes | \$ 990,409 | \$ 1,324,103 | \$ 2,314,512 |
| Retained earnings | \$ 5,982,697 | \$ 331,026 | \$ 6,313,723 |

See Note 13, *New Accounting Pronouncements*, and Note 12, *Income Taxes*, in these Notes to Condensed Consolidated Financial Statements for more information on the adoption of ASU 2016-16.

Note 2 – Revenue Recognition

Revenue Recognition Policy: In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, to achieve a consistent application of revenue recognition, resulting in a single revenue model to be applied by reporting companies under U.S. generally accepted accounting principles. Under the new model, recognition of revenue occurs when a customer obtains control of promised goods or services in an amount that reflects the consideration to which the providing entity expects to be entitled in exchange for those goods or services. As a result of the adoption of ASU 2014-09, at the beginning of the first quarter of fiscal 2019, the Company revised its revenue recognition policy. The Company now recognizes revenue upon transfer of control of promised products or services to customers in an amount that reflects the consideration the Company expects to receive in exchange for those products or services. Under ASU 2014-09, the Company recognizes revenue when all of the following criteria are met: (1) the Company has entered into a binding agreement, (2) the performance obligations have been identified, (3) the transaction price to the customer has been determined, (4) the transaction price has been allocated to the performance obligations in the contract, and (5) the performance obligations have been satisfied. The majority of the Company's shipping terms permit the Company to recognize revenue at point of shipment or delivery. Certain shipping terms require the goods to be through customs or be received by the customer before title passes. In those instances, the Company defers the revenue recognized until title has passed. Shipping costs are charged to cost of sales as incurred. Sales taxes are excluded from revenue.

Revenue from contracts with the United States government, government prime contractors and certain commercial customers is recorded over time using either units delivered or costs incurred as the measurement basis for progress toward completion. These measures are used to measure results directly and is generally the best measure of progress toward completion in circumstances in which a reliable measure of output can be established. Estimated revenue in excess of amounts billed is reported as unbilled receivables. Contract accounting requires judgment in estimating costs and assumptions related to technical issues and delivery schedule. Contract costs include material, subcontract costs, labor and an allocation of indirect costs. The estimation of costs at completion of a contract is subject to numerous variables involving contract costs and estimates as to the length of time to complete the contract. Changes in contract performance, estimated gross margin, including the impact of final contract settlements, and estimated losses are recognized in the period in which the changes or losses are determined.

Performance Obligations: Substantially all of the Company's contracts with customers contain a single performance obligation, the sale of mixed-signal integrated circuit (IC) products. Such sales represent a single performance obligation because the sale is one type of good or includes multiple goods that are neither capable of being distinct nor separable from the other promises in the contract. This performance obligation is satisfied when control of the product is transferred to the customer, which occurs upon shipment or delivery. Unsatisfied performance obligations primarily represent contracts for products with future delivery dates and with an original expected duration of one year or less. As allowed under ASU 2014-09, the Company has opted to not disclose the amount of unsatisfied performance obligations as these contracts have original expected durations of less than one year. The Company generally offers a twelve-month warranty for its products. The Company's warranty policy provides for replacement of defective products. Specific accruals are recorded for known product warranty issues.

Transaction Price: The transaction price reflects the Company's expectations about the consideration it will be entitled to receive from the customer and may include fixed or variable amounts. Fixed consideration primarily includes sales to direct customers and sales to distributors in which both the sale to the distributor and the sale to the end customer occur within the same reporting period. Variable consideration includes sales in which the amount of consideration that the Company will receive is unknown as of the end of a reporting period. Such consideration primarily includes sales made to distributors under agreements that allow certain rights of return, referred to as stock rotation, and credits issued to the distributor due to price protection. Stock rotation allows distributors limited levels of returns in order to reduce the amounts of slow-moving, discontinued or obsolete product from their inventory. Price protection represents price discounts granted to certain distributors to allow the distributor to earn an appropriate margin on sales negotiated with certain customers and in the event of a price decrease subsequent to the date the product was shipped and billed to the distributor. A refund liability for distributor credits covering variable consideration are made based on the Company's estimate of historical experience rates as well as considering economic conditions and contractual terms. To date, actual distributor claims activity has been materially consistent with the provisions the Company has made based on its historical estimates.

Contract Balances: Accounts receivable represents the Company's unconditional right to receive consideration from its customers. Payments are typically due within 30 to 45 days of invoicing and do not include a significant financing component. To date, there have been no material impairment losses on accounts receivable. There were no material contract assets or contract liabilities recorded on the condensed consolidated balance sheet in any of the periods presented.

Note 3 – Stock-Based Compensation and Shareholders' Equity

A summary of the Company's stock option activity as of May 4, 2019 and changes during the three- and six-month periods 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 |
|--|--|--|---|---------------------------------|
| <u>Activity during the Three Months Ended May 4, 2019</u> | | | | |
| Options outstanding at February 2, 2019 | 6,741 | \$60.03 | | |
| Options granted | 413 | \$108.08 | | |
| Options exercised | (1,294) | \$52.60 | | |
| Options forfeited | (38) | \$75.43 | | |
| Options outstanding at May 4, 2019 | <u>5,822</u> | \$64.99 | 6.3 | \$302,503 |
| Options exercisable at May 4, 2019 | <u>3,443</u> | \$54.70 | 5.2 | \$214,319 |
| Options vested or expected to vest at May 4, 2019 (1) | <u>5,626</u> | \$64.30 | 6.2 | \$296,225 |

- (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.

| | Options Outstanding (in thousands) | Weighted- Average Exercise Price Per Share |
|--|--|--|
| <u>Activity during the Six Months Ended May 4, 2019</u> | | |
| Options outstanding at November 3, 2018 | 7,297 | \$58.42 |
| Options granted | 439 | \$107.08 |
| Options exercised | (1,806) | \$48.44 |
| Options forfeited | (103) | \$72.06 |
| Options expired | (5) | \$21.97 |
| Options outstanding at May 4, 2019 | <u>5,822</u> | \$64.99 |

During the three- and six-month periods ended 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 \$72.6 million and \$99.7 million, respectively, and the total amount of proceeds received by the Company from the exercise of these options was \$67.7 million and \$86.9 million, respectively.

During the three- and six-month periods ended May 5, 2018, 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 \$28.7 million and \$82.5 million, respectively, and the total amount of proceeds received by the Company from the exercise of these options was \$27.7 million and \$65.6 million, respectively.

A summary of the Company's restricted stock unit/award activity as of May 4, 2019 and changes during the three- and six-month periods then ended is presented below:

| | Restricted Stock Units/ Awards Outstanding (in thousands) | Weighted- Average Grant- Date Fair Value Per Share |
|--|---|---|
| Activity during the Three Months Ended May 4, 2019 | | |
| Restricted stock units/awards outstanding at February 2, 2019 | 4,985 | \$77.76 |
| Units/Awards granted | 1,144 | \$98.90 |
| Restrictions lapsed | (1,074) | \$64.18 |
| Forfeited | (77) | \$78.81 |
| Restricted stock units/awards outstanding at May 4, 2019 | 4,978 | \$85.49 |
| Activity during the Six Months Ended May 4, 2019 | | |
| Restricted stock units/awards outstanding at November 3, 2018 | 5,289 | \$77.54 |
| Units/Awards granted | 1,200 | \$98.06 |
| Restrictions lapsed | (1,331) | \$66.00 |
| Forfeited | (180) | \$78.58 |
| Restricted stock units/awards outstanding at May 4, 2019 | 4,978 | \$85.49 |

As of May 4, 2019, there was \$395.6 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 1.6 years. The total grant-date fair value of shares that vested during the three- and six-month periods ended May 4, 2019 was approximately \$87.1 million and \$106.4 million, respectively. The total grant-date fair value of shares that vested during the three- and six-month periods ended May 5, 2018 was approximately \$64.1 million and \$84.5 million, respectively.

Common Stock Repurchases

As of May 4, 2019, the Company had repurchased a total of approximately 152.0 million shares of its common stock for approximately \$5.8 billion under the Company's share repurchase program. As of May 4, 2019, an additional \$2.3 billion remains available for repurchase of shares under the current authorized program.

Note 4 – Accumulated Other Comprehensive Income (Loss)

The following table provides the changes in accumulated other comprehensive income (loss) (OCI) by component and the related tax effects during the first six months of fiscal 2019.

| | Foreign currency translation adjustment | Unrealized holding gains (losses) on available for sale securities | Unrealized holding gains (losses) on derivatives | Pension plans | Total |
|---|--|--|--|--------------------|--------------------|
| November 3, 2018 | \$ (28,711) | \$ (10) | \$ (14,355) | \$ (15,364) | \$ (58,440) |
| Other comprehensive income (loss) before reclassifications | (112) | 15 | (53,229) | (19) | (53,345) |
| Amounts reclassified out of other comprehensive income (loss) | — | — | 5,196 | 511 | 5,707 |
| Tax effects | — | — | 10,183 | (126) | 10,057 |
| Other comprehensive income (loss) | (112) | 15 | (37,850) | 366 | (37,581) |
| May 4, 2019 | \$ (28,823) | \$ 5 | \$ (52,205) | \$ (14,998) | \$ (96,021) |

The amounts reclassified out of accumulated OCI into the Condensed Consolidated Statement of Income with presentation location during each period were as follows:

| Comprehensive Income Component | Three Months Ended | | Six Months Ended | | Location |
|---|--------------------|-------------------|------------------|-------------------|--|
| | May 4, 2019 | May 5, 2018 | May 4, 2019 | May 5, 2018 | |
| Unrealized holding losses (gains) on derivatives | | | | | |
| Currency forwards | \$ 478 | \$ (590) | \$ 1,197 | \$ (1,865) | Cost of sales |
| | 770 | (714) | 1,618 | (1,783) | Research and development |
| | 956 | (787) | 1,871 | (1,756) | Selling, marketing, general and administrative |
| Interest rate derivatives | 464 | (473) | 510 | 157 | Interest expense |
| | 2,668 | (2,564) | 5,196 | (5,247) | Total before tax |
| | (393) | 131 | (803) | 475 | Tax |
| | <u>\$ 2,275</u> | <u>\$ (2,433)</u> | <u>\$ 4,393</u> | <u>\$ (4,772)</u> | Net of tax |
| Amortization of pension components | | | | | |
| Transition obligation | \$ — | \$ 2 | \$ — | \$ 4 | (a) |
| Prior service credit | — | 1 | — | 1 | (a) |
| Actuarial losses | 254 | 407 | 511 | 832 | (a) |
| | 254 | 410 | 511 | 837 | Total before tax |
| | (63) | (99) | (126) | (202) | Tax |
| | <u>\$ 191</u> | <u>\$ 311</u> | <u>\$ 385</u> | <u>\$ 635</u> | Net of tax |
| Total amounts reclassified out of accumulated other comprehensive income (loss), net of tax | <u>\$ 2,466</u> | <u>\$ (2,122)</u> | <u>\$ 4,778</u> | <u>\$ (4,137)</u> | |

(a) The amortization of pension components is included in the computation of net periodic pension cost. For further information see Note 11, *Retirement Plans*, in the Notes to Consolidated Financial Statements in Item 8 of the Annual Report on Form 10-K for the fiscal year ended November 3, 2018.

The Company estimates \$2.3 million, net of tax, of losses of forward foreign currency derivative instruments included in OCI will be reclassified into earnings within the next 12 months. There was no material ineffectiveness recorded within OCI related to designated forward foreign currency derivative instruments in the three- and six-month periods ended May 4, 2019 and May 5, 2018.

As of May 4, 2019, the Company held 10 investment securities, 1 of which was in an unrealized loss position with immaterial gross unrealized losses and an aggregate fair value of \$25.0 million. As of November 3, 2018, the Company held 15 investment securities, 15 of which were in an unrealized loss position with immaterial gross unrealized losses and an aggregate fair value of \$205.0 million. These unrealized losses were primarily related to corporate obligations that earn lower interest rates than current market rates. None of these investments have been in a loss position for more than twelve months. As the Company does not intend to sell these investments and it is unlikely that the Company will be required to sell the investments before recovery of their amortized basis, which will be at maturity, the Company does not consider those investments to be other-than-temporarily impaired at May 4, 2019 and November 3, 2018.

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

Unvested restricted stock awards that entitle recipients to voting and nonforfeitable dividend rights from the date of grant are considered participating securities and the two-class method is used for purposes of calculating earnings per share. Under the two-class method, a portion of net income is allocated to these participating securities and therefore is excluded from the

calculation of earnings per share allocated to common stock, as shown in the table below. The difference between the income allocated to participating securities under the basic and diluted two-class methods is not material.

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

| | Three Months Ended | | Six Months Ended | |
|--|--------------------|--------------------|-------------------|--------------------|
| | May 4, 2019 | May 5, 2018 (1) | May 4, 2019 | May 5, 2018 (1) |
| Net Income | \$ 367,937 | \$ 400,328 | \$ 722,943 | \$ 693,568 |
| Less: income allocated to participating securities | 908 | 1,532 | 1,932 | 2,827 |
| Net income allocated to common stockholders | <u>\$ 367,029</u> | <u>\$ 398,796</u> | <u>\$ 721,011</u> | <u>\$ 690,741</u> |
| Basic shares: | | | | |
| Weighted-average shares outstanding | <u>369,246</u> | <u>370,384</u> | <u>368,974</u> | <u>369,685</u> |
| Earnings per common share basic: | <u>\$ 0.99</u> | <u>\$ 1.08</u> | <u>\$ 1.95</u> | <u>\$ 1.87</u> |
| Diluted shares: | | | | |
| Weighted-average shares outstanding | <u>369,246</u> | <u>370,384</u> | <u>368,974</u> | <u>369,685</u> |
| Assumed exercise of common stock equivalents | <u>4,096</u> | <u>4,394</u> | <u>3,938</u> | <u>4,745</u> |
| Weighted-average common and common equivalent shares | <u>373,342</u> | <u>374,778</u> | <u>372,912</u> | <u>374,430</u> |
| Earnings per common share diluted: | <u>\$ 0.98</u> | <u>\$ 1.06</u> | <u>\$ 1.93</u> | <u>\$ 1.84</u> |
| Anti-dilutive shares related to: | | | | |
| Outstanding share-based awards | 432 | 1,990 | 1,222 | 1,731 |

(1) Balances have been restated to reflect the full retrospective adoption of ASU 2014-09. See Note 1, *Basis of Presentation*, in these Notes to Condensed Consolidated Financial Statements.

Note 6 – Special Charges

The Company monitors global macroeconomic conditions on an ongoing basis and continues to assess opportunities for improved operational effectiveness and efficiency, as well as a better alignment of expenses with revenues. As a result of these assessments, the Company has undertaken various restructuring actions over the past several years. These actions are described below.

The following table is a roll-forward from November 3, 2018 to May 4, 2019 of the employee separation and exit cost accruals established related to these actions:

| Accrued Restructuring | Closure of Manufacturing Facilities | Reduction of Operating Costs Action | Early Retirement Action | Repositioning Action |
|--|---|---|----------------------------|----------------------|
| Balance at November 3, 2018 | <u>\$ 42,974</u> | <u>\$ 5,255</u> | <u>\$ 9,897</u> | <u>\$ —</u> |
| First quarter fiscal 2019 special charges | 1,127 | — | — | 20,655 |
| Severance and other payments | — | (2,489) | (2,766) | (1,051) |
| Non-cash impairment charge | — | — | — | (4,367) |
| Effect of foreign currency on accrual | (14) | 4 | — | (2) |
| Balance at February 2, 2019 | <u>\$ 44,087</u> | <u>\$ 2,770</u> | <u>\$ 7,131</u> | <u>\$ 15,235</u> |
| Second quarter fiscal 2019 special charges | 4,593 | — | — | 3,569 |
| Severance and other payments | — | (909) | (1,641) | (3,782) |
| Effect of foreign currency on accrual | (18) | — | — | (9) |
| Balance at May 4, 2019 | <u>\$ 48,662</u> | <u>\$ 1,861</u> | <u>\$ 5,490</u> | <u>\$ 15,013</u> |
| Current - accrued liabilities | <u>\$ —</u> | <u>\$ 1,861</u> | <u>\$ 5,490</u> | <u>\$ 15,013</u> |
| Other non-current liabilities | <u>\$ 48,662</u> | <u>\$ —</u> | <u>\$ —</u> | <u>\$ —</u> |

Repositioning Action

During the first and second quarters of fiscal 2019, the Company recorded special charges of \$20.7 million and \$3.6 million, respectively, 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 \$19.8 million of the total charges for the first and second quarters of fiscal 2019 were for severance and fringe benefit costs in accordance with either the Company's ongoing benefit plan or statutory requirements for 140 engineering and selling, marketing, general and administrative (SMG&A) employees. As of May 4, 2019, the Company still employed 68 of the 140 employees included in this action. These employees must continue to be employed by the Company until their employment is involuntarily terminated in order to receive the severance benefits. The remaining \$4.4 million of the charges related to the write off of acquired intellectual property during the first quarter of fiscal 2019 due to the Company's decision to discontinue certain product development strategies.

Closure of Manufacturing Facilities

The Company recorded special charges of \$48.7 million on a cumulative basis through May 4, 2019 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). Over the next two to four years, the Company plans to close its Hillview wafer fabrication facility located in Milpitas, California and its Singapore test facility. 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, and one-time termination benefits for 1,249 manufacturing, engineering and SMG&A employees.

Employees included in this action must continue to be employed by the Company until their employment is terminated in order to receive the severance benefits.

Note 7 – Segment Information

The Company designs, develops, manufactures and markets a broad range of integrated circuits (ICs). The Company operates and tracks its results in one reportable segment based on the aggregation of eight operating segments. The Chief Executive Officer has been identified as the Company's Chief Operating Decision Maker.

Revenue Trends by End Market

The following table summarizes revenue by end market for the three- and six-month periods ended May 4, 2019 and May 5, 2018. The categorization of revenue by end market is determined using a variety of data points including the technical characteristics of the product, the "sold to" customer information, the "ship to" customer information and the end customer product or application into which the Company's product will be incorporated. As data systems for capturing and tracking this data evolve and improve, the categorization of products by end market can vary over time. When this occurs, the Company reclassifies revenue by end market for prior periods. Such reclassifications typically do not materially change the sizing of, or the underlying trends of results within, each end market.

| | Three Months Ended | | | | |
|----------------------|---------------------|---------------|-------------|---------------------|---------------|
| | May 4, 2019 | | | May 5, 2018 | |
| | Revenue | % of Revenue* | Y/Y% | Revenue (1) | % of Revenue* |
| Industrial | \$ 763,455 | 50 % | (6) % | \$ 810,732 | 52 % |
| Automotive | 249,765 | 16 % | — % | 250,919 | 16 % |
| Consumer | 153,745 | 10 % | (32) % | 227,077 | 15 % |
| Communications | 359,637 | 24 % | 31 % | 274,774 | 18 % |
| Total revenue | \$ 1,526,602 | 100% | (2)% | \$ 1,563,502 | 100% |

| | Six Months Ended | | | | |
|----------------------|---------------------|---------------|-------------|---------------------|---------------|
| | May 4, 2019 | | | May 5, 2018 | |
| | Revenue | % of Revenue* | Y/Y% | Revenue (1) | % of Revenue* |
| Industrial | \$ 1,488,077 | 49 % | (6) % | \$ 1,590,445 | 51 % |
| Automotive | 511,319 | 17 % | (1) % | 515,791 | 16 % |
| Consumer | 362,966 | 12 % | (26) % | 491,711 | 16 % |
| Communications | 705,341 | 23 % | 32 % | 532,425 | 17 % |
| Total revenue | \$ 3,067,703 | 100% | (2)% | \$ 3,130,372 | 100% |

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

(1) Balances have been restated to reflect the full retrospective adoption of ASU 2014-09. See Note 1, *Basis of Presentation*, in these Notes to Condensed Consolidated Financial Statements.

Revenue by Sales 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 some commercial customers. The following tables summarize revenue by channel for the three- and six-month periods ended May 4, 2019 and May 5, 2018:

| Channel | Three Months Ended | | | |
|----------------------|---------------------|---------------|---------------------|---------------|
| | May 4, 2019 | | May 5, 2018 | |
| | Revenue | % of Revenue* | Revenue (1) | % of Revenue* |
| Distributors | \$ 871,510 | 57 % | \$ 869,277 | 56 % |
| Direct customers | 638,277 | 42 % | 675,188 | 43 % |
| Other | 16,815 | 1 % | 19,037 | 1 % |
| Total revenue | \$ 1,526,602 | 100% | \$ 1,563,502 | 100% |

| Channel | Six Months Ended | | | |
|----------------------|---------------------|---------------|---------------------|---------------|
| | May 4, 2019 | | May 5, 2018 | |
| | Revenue | % of Revenue* | Revenue (1) | % of Revenue* |
| Distributors | \$ 1,700,753 | 55 % | \$ 1,734,289 | 55 % |
| Direct customers | 1,333,766 | 43 % | 1,348,591 | 43 % |
| Other | 33,184 | 1 % | 47,492 | 2 % |
| Total revenue | \$ 3,067,703 | 100% | \$ 3,130,372 | 100% |

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

(1) Balances have been restated to reflect the full retrospective adoption of ASU 2014-09. See Note 1, *Basis of Presentation*, in these Notes to Condensed Consolidated Financial Statements.

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 4, 2019 and November 3, 2018. 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 4, 2019 and November 3, 2018, the Company held \$233.6 million and \$217.6 million, respectively, of cash and held-to-maturity investments that were excluded from the tables below.

| | May 4, 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 | \$ 370,220 | \$ — | \$ 370,220 |
| Corporate obligations (1) | — | 109,819 | 109,819 |
| Other assets: | | | |
| Deferred compensation investments | 43,720 | — | 43,720 |
| Total assets measured at fair value | \$ 413,940 | \$ 109,819 | \$ 523,759 |
| Liabilities | | | |
| Forward foreign currency exchange contracts (2) | — | 3,542 | 3,542 |
| Interest rate derivatives | — | 51,644 | 51,644 |
| Total liabilities measured at fair value | \$ — | \$ 55,186 | \$ 55,186 |

- (1) The amortized cost of the Company's investments classified as available-for-sale as of May 4, 2019 was \$109.8 million.
- (2) 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 3, 2018 | | |
|---|--|---|-------------------|
| | 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 | \$ 394,076 | \$ — | \$ 394,076 |
| Corporate obligations (1) | — | 204,886 | 204,886 |
| Other assets: | | | |
| Deferred compensation investments | 41,001 | — | 41,001 |
| Interest rate derivatives | — | 1,436 | 1,436 |
| Total assets measured at fair value | \$ 435,077 | \$ 206,322 | \$ 641,399 |
| Liabilities | | | |
| Forward foreign currency exchange contracts (2) | — | 7,150 | 7,150 |
| Total liabilities measured at fair value | \$ — | \$ 7,150 | \$ 7,150 |

- (1) The amortized cost of the Company's investments classified as available-for-sale as of November 3, 2018 was \$205.0 million.
- (2) 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.

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 loans approximate fair value. The term loans are classified as Level 2 measurements 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. See Note 10, *Debt*, in these Notes to Condensed Consolidated Financial Statements for further discussion related to outstanding debt.

| | May 4, 2019 | | November 3, 2018 | |
|--|------------------------------|--------------|------------------------------|--------------|
| | Principal Amount Outstanding | Fair Value | Principal Amount Outstanding | Fair Value |
| 3-Year term loan, due March 2020 | \$ 75,000 | \$ 75,000 | \$ 425,000 | \$ 425,000 |
| 5-Year term loan, due March 2022 | 1,350,000 | 1,350,000 | 1,350,000 | 1,350,000 |
| 2.85% Senior unsecured notes, due March 2020 | 300,000 | 300,113 | 300,000 | 298,147 |
| 2.90% Senior unsecured notes, due January 2021 | 450,000 | 450,564 | 450,000 | 444,568 |
| 2.50% Senior unsecured notes, due December 2021 | 400,000 | 396,406 | 400,000 | 386,375 |
| 2.875% Senior unsecured notes, due June 2023 | 500,000 | 495,695 | 500,000 | 479,189 |
| 3.125% Senior unsecured notes, due December 2023 | 550,000 | 554,447 | 550,000 | 529,120 |
| 3.90% Senior unsecured notes, due December 2025 | 850,000 | 874,714 | 850,000 | 829,611 |
| 3.50% Senior unsecured notes, due December 2026 | 900,000 | 903,740 | 900,000 | 848,027 |
| 4.50% Senior unsecured notes, due December 2036 | 250,000 | 251,900 | 250,000 | 232,627 |
| 5.30% Senior unsecured notes, due December 2045 | 400,000 | 452,299 | 400,000 | 407,984 |
| Total debt | \$ 6,025,000 | \$ 6,104,878 | \$ 6,375,000 | \$ 6,230,648 |

Note 9 – Derivatives

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

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 4, 2019 and November 3, 2018 was \$197.4 million and \$194.4 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 4, 2019 and November 3, 2018 was as follows:

| | Balance Sheet Location | Fair Value At | |
|---|------------------------|---------------|------------------|
| | | May 4, 2019 | November 3, 2018 |
| Forward foreign currency exchange contracts | Accrued liabilities | \$ 3,297 | \$ 6,934 |

Additionally, the Company enters into forward foreign currency contracts that economically hedge the gains and losses generated by the re-measurement of certain recorded assets and liabilities in a non-functional currency. Changes in the fair value of these undesignated hedges are recognized in other (income) expense immediately as an offset to the changes in the fair value of the asset or liability being hedged. As of May 4, 2019 and November 3, 2018, the total notional amount of these undesignated hedges was \$80.6 million and \$40.6 million, respectively. The fair value of these hedging instruments in the Company's condensed consolidated balance sheets was immaterial as of May 4, 2019 and November 3, 2018.

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 sheet on a net basis. As of May 4, 2019 and November 3, 2018, none of the netting arrangements involved collateral.

The following table presents the gross amounts of the Company's derivative assets and liabilities and the net amounts recorded in the Company's condensed consolidated balance sheet:

| | <u>May 4, 2019</u> | <u>November 3, 2018</u> |
|---|--------------------|-------------------------|
| Gross amount of recognized liabilities | \$ (5,109) | \$ (8,054) |
| Gross amounts of recognized assets offset in the condensed consolidated balance sheet | 1,567 | 904 |
| Net liabilities presented in the condensed consolidated balance sheet | <u>\$ (3,542)</u> | <u>\$ (7,150)</u> |

Interest Rate Exposure Management — The Company's current and future debt may be subject to interest rate risk. The Company utilizes interest rate derivatives to alter interest rate exposure in an attempt to reduce the effects of these changes. In the first quarter of fiscal 2019, the Company entered into an interest rate swap agreement which locked in the interest rate for up to \$1.0 billion in future debt issuances. The interest rate swap agreement was designated and qualified as a cash flow hedge. The fair value of this hedge was \$51.6 million as of May 4, 2019 and is 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 4, 2019 and November 3, 2018, 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.

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

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

Note 10 – Debt

The Company has a senior unsecured revolving credit facility with certain institutional lenders that expires on July 10, 2020. The agreement for such revolving credit facility (the Credit Agreement) provides that the Company may borrow up to \$1.0 billion. In December 2018, the Company borrowed \$75.0 million under this revolving credit facility and utilized the proceeds for the repayment of existing indebtedness and working capital requirements. The Company repaid the \$75 million plus interest of \$0.2 million in January 2019. The Company 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.

During the six-month period ended May 4, 2019, the Company made additional principal payments of \$350.0 million on its 3-year unsecured term loan. These amounts were not contractually due under the terms of the loan.

Note 11 – Inventories

Inventories at May 4, 2019 and November 3, 2018 were as follows:

| | May 4, 2019 | November 3, 2018 |
|-------------------|-------------------|-------------------|
| Raw materials | \$ 35,853 | \$ 30,511 |
| Work in process | 400,724 | 375,908 |
| Finished goods | 171,508 | 180,341 |
| Total inventories | <u>\$ 608,085</u> | <u>\$ 586,760</u> |

Note 12 – Income Taxes

The Tax Cuts and Jobs Act of 2017 (Tax Legislation), enacted in December 2017, contains significant changes to U.S. tax law, including lowering the U.S. corporate income tax rate to 21.0%, implementing a territorial tax system, and imposing a one-time tax on deemed repatriated earnings of foreign subsidiaries.

The Tax Legislation reduced the U.S. statutory tax rate from 35.0% to 21.0%, effective January 1, 2018, which resulted in a blended statutory income tax rate for the Company of 23.4% for fiscal 2018. For fiscal 2019, the Company's U.S. statutory income tax rate was reduced to the statutory income tax rate of 21.0%.

In fiscal 2018, the Company recorded a provisional tax benefit of \$637.0 million for the re-measurement of deferred tax assets and liabilities based on the rates to which they are expected to reverse in the future, which is generally 21.0%.

The Tax Legislation also implemented a territorial tax system. As part of transitioning to the territorial tax system, the Tax Legislation included a one-time transition tax based on the Company's total post-1986 undistributed foreign earnings and profits that were previously deferred from U.S. income tax. In fiscal 2018, the Company recorded a provisional tax expense amount for the one-time transition tax of \$691.0 million, which is comprised of the \$755.0 million transition tax liability less a deferred tax liability of \$64.0 million that was recorded in prior years. In the first quarter of fiscal 2019, the Company adjusted its provisional net charge by recording an additional tax benefit of \$7.5 million for a change to its estimate for the transition tax due to the finalization of the aggregate foreign cash positions.

The Tax Legislation subjects U.S. corporations to tax on its global intangible low-taxed income (GILTI). Under U.S. GAAP, an accounting policy election can be made to either treat taxes due on the GILTI inclusion as a current period expense or to recognize deferred taxes for temporary basis differences expected to reverse as GILTI in future years. The Company elected the deferral method and recorded the corresponding GILTI deferred tax assets and liabilities on its consolidated balance sheet.

The Company completed its accounting for the income tax effects of the Tax Legislation during the first quarter of 2019, in accordance with the U.S. Securities and Exchange Commission Staff Accounting Bulletin No. 118. As of May 4, 2019, the U.S. Treasury Department and the Internal Revenue Service (IRS) are still in the process of issuing various regulations relating to the Tax Legislation. Furthermore, there is a possibility that Congress could enact technical corrections to the Tax Legislation in the future. Accordingly, future adjustments to the financial statements may be necessary as the regulations are issued and when the Company files its fiscal 2018 tax returns with the IRS and foreign tax authorities.

In October 2016, the FASB issued ASU 2016-16, *Income Taxes* (Topic 740) (ASU 2016-16). ASU 2016-16 requires an entity to recognize the income tax consequences of an intra-entity transfer of an asset, other than inventory, when the transfer occurs. ASU 2016-16 is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. The Company adopted ASU 2016-16 in the first quarter of fiscal 2019 using the modified retrospective method with a cumulative-effect adjustment directly to retained earnings. The Company adopted the guidance effective as of November 4, 2018. The adoption of ASU 2016-16 resulted in a net cumulative-effect adjustment that resulted in an increase in retained earnings of \$331.0 million, by recording new deferred tax assets from intra-entity transfers involving assets other than inventory, partially offset by a U.S. deferred tax liability related to GILTI. Adoption of the standard resulted in an increase in long-term deferred tax assets of \$1.7 billion and an increase in long-term deferred tax liabilities of \$1.3 billion.

The Company has numerous income tax audits ongoing at any time throughout the world, including an Internal Revenue Service 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.

Except for the Linear pre-acquisition audit, the Company's U.S. federal tax returns prior to fiscal year 2015 are no longer subject to examination.

The Company's Ireland tax returns prior to fiscal 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 fiscal 2013 of approximately €43.0 million, or \$48.2 million (as of May 4, 2019), 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 2013 could have a material unfavorable impact on the Company's income tax expense and net earnings in future periods. Irish Revenue has also commenced a transfer pricing audit of fiscal 2014 through 2017.

Although the Company believes that its estimates of income taxes payable are reasonable, no assurance can be given that the Company will prevail in the matters raised or that the outcome of one or all of these matters will not be different than that which is reflected in the historical income tax provisions and accruals. The Company believes such differences would not have a material impact on the Company's financial condition.

Note 13 – New Accounting Pronouncements

Standards Implemented

Revenue Recognition

In May 2014, the FASB issued ASU 2014-09, which supersedes nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Additionally, the guidance requires improved disclosures to help users of financial statements better understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The FASB issued several amendments and updates to the new revenue standard, including guidance related to when an entity should recognize revenue gross as a principal or net as an agent and how an entity should identify performance obligations. The Company adopted ASU 2014-09 in the first quarter of fiscal 2019 using the full retrospective method and restated prior periods. As a result of the adoption of ASU 2014-09 the Company changed its accounting policy for revenue recognition. See Note 1, *Basis of Presentation*, and Note 2, *Revenue Recognition*, in these Notes to Condensed Consolidated Financial Statements for details of the impact of ASU 2014-09 on the Company's financial statements.

Income Taxes

In October 2016, the FASB issued ASU 2016-16, *Income Taxes (Topic 740)* (ASU 2016-16). ASU 2016-16 requires an entity to recognize the income tax consequences of an intra-entity transfer of an asset, other than inventory, when the transfer occurs. ASU 2016-16 is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. The Company adopted ASU 2016-16 in the first quarter of fiscal 2019 using the modified retrospective method with a cumulative-effect adjustment directly to retained earnings. The adoption of ASU 2016-16 resulted in a net cumulative-effect adjustment that resulted in an increase in retained earnings of \$331.0 million, by recording new deferred tax assets from intra-entity transfers involving assets other than inventory, partially offset by a U.S. deferred tax liability related to GILTI. Adoption of the standard resulted in an increase in long-term deferred tax assets of \$1.7 billion and an increase in long-term deferred tax liabilities of \$1.3 billion.

Other

The following standards were adopted during the first quarter of fiscal 2019 and did not have a material impact on the Company's financial position and results of operations:

- ASU 2017-01, *Business Combinations (Topic 805) Clarifying the Definition of a Business*.
- ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*.
- ASU 2016-01, *Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*.
- ASU 2017-09, *Compensation-Stock Compensation (Topic 718): Scope of Modification Accounting*.
- ASU 2017-07, *Improving the Presentation of Net Period Pension Cost and Net Period Postretirement Benefit Cost*.

Standards to Be Implemented

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 for reclassification of stranded tax effects resulting from the Tax Legislation from accumulated other comprehensive income to retained earnings. ASU 2018-02 is effective for fiscal years beginning after December 15, 2018, with early adoption permitted. ASU 2018-02 is effective for the Company in the first quarter of the fiscal year ending October 31, 2020 (fiscal 2020). The Company is currently evaluating the adoption date and the impact, if any, adoption will have on its financial position and results of operations.

Leases

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)* (ASU 2016-02). ASU 2016-02 requires a lessee to recognize most leases on the balance sheet but recognize expenses on the income statement in a manner similar to current practice. The update states that a lessee will recognize a lease liability for the obligation to make lease payments and a right-to-use asset for the right to use the underlying assets for the lease term. Leases will continue to be classified as either financing or operating, with classification affecting the recognition, measurement and presentation of expenses and cash flows arising from a lease. 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 exist 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. ASU 2016-02 and ASU 2018-01 are effective for the Company in the first quarter of fiscal 2020. The Company is currently evaluating the impact adoption will have on its financial position and results of operations and expects that there will be an increase in assets and liabilities on the Consolidated Balance Sheets at adoption due to the recognition of right-of-use assets and related lease liabilities. The Company does not expect the adoption of ASU 2016-02, ASU 2018-01 and ASU 2018-11 to have a material impact on its results of operations.

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. ASU 2016-13 is effective for fiscal years beginning after December 15, 2019, and for interim periods within those fiscal years. ASU 2016-13 is effective for the Company in the first quarter of fiscal 2021. The Company is currently evaluating the adoption date and the impact, if any, adoption will have on its financial position and results of operations.

Note 14 – Subsequent Events

On May 21, 2019, the Board of Directors of the Company declared a cash dividend of \$0.54 per outstanding share of common stock. The dividend will be paid on June 11, 2019 to all shareholders of record at the close of business on May 31, 2019 and is expected to total approximately \$199.7 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 3, 2018 (fiscal 2018).

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; 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, including the integration of the acquired business, operations and employees of Linear Technology Corporation (Linear); and other characterizations of future events or circumstances are forward-looking statements. Readers are cautioned that these forward-looking statements are only predictions and are inherently subject to risks, uncertainties, and assumptions that are difficult to predict, including those identified in Part II, Item 1A. “Risk Factors” and elsewhere herein. Therefore, actual results may differ materially and adversely from those expressed in any forward-looking statements. We undertake no obligation to revise or update any forward-looking statements, including to reflect events or circumstances occurring after the date of the filing of this report, except to the extent required by law.

Results of Operations

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

Overview

| | Three Months Ended | | | |
|------------------------------|--------------------|-----------------|-------------|----------|
| | May 4, 2019 | May 5, 2018 (1) | \$ Change | % Change |
| Revenue | \$ 1,526,602 | \$ 1,563,502 | \$ (36,900) | (2)% |
| Gross margin % | 67.7% | 68.6% | | |
| Net income | \$ 367,937 | \$ 400,328 | \$ (32,391) | (8)% |
| Net income as a % of revenue | 24.1% | 25.6% | | |
| Diluted EPS | \$ 0.98 | \$ 1.06 | \$ (0.08) | (8)% |

| | Six Months Ended | | | |
|------------------------------|------------------|-----------------|-------------|----------|
| | May 4, 2019 | May 5, 2018 (1) | \$ Change | % Change |
| Revenue | \$ 3,067,703 | \$ 3,130,372 | \$ (62,669) | (2)% |
| Gross margin % | 67.6% | 68.5% | | |
| Net income | \$ 722,943 | \$ 693,568 | \$ 29,375 | 4 % |
| Net income as a % of revenue | 23.6% | 22.2% | | |
| Diluted EPS | \$ 1.93 | \$ 1.84 | \$ 0.09 | 5 % |

(1) Balances have been restated to reflect the full retrospective adoption of Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (ASU 2014-09). See Note 1, *Basis of Presentation*, in the Notes to Condensed Consolidated Financial Statements in Part I, Item 1 of this Quarterly Report on Form 10-Q.

The fiscal year ending November 2, 2019 (fiscal 2019) is a 52-week year and the fiscal year ended November 3, 2018 (fiscal 2018) was a 53-week year. The additional week in fiscal 2018 was included in the first quarter ended February 3, 2018. Therefore, the first six months of fiscal 2019 included one less week of operations as compared to the first six months of fiscal 2018.

Revenue Trends by End Market

The following tables summarize revenue by end market for the three- and six-month periods ended May 4, 2019 and May 5, 2018. The categorization of revenue by end market is determined using a variety of data points including the technical characteristics of the product, the “sold to” customer information, the “ship to” customer information and the end customer product or application into which our product will be incorporated. As data systems for capturing and tracking this data evolve and improve, the categorization of products by end market can vary over time. When this occurs, we reclassify revenue by end market for prior periods. Such reclassifications typically do not materially change the sizing of, or the underlying trends of results within, each end market.

| | Three Months Ended | | | | |
|----------------------|---------------------|---------------|-------------|---------------------|---------------|
| | May 4, 2019 | | | May 5, 2018 | |
| | Revenue | % of Revenue* | Y/Y% | Revenue (1) | % of Revenue* |
| Industrial | \$ 763,455 | 50 % | (6) % | \$ 810,732 | 52 % |
| Automotive | 249,765 | 16 % | — % | 250,919 | 16 % |
| Consumer | 153,745 | 10 % | (32) % | 227,077 | 15 % |
| Communications | 359,637 | 24 % | 31 % | 274,774 | 18 % |
| Total revenue | \$ 1,526,602 | 100% | (2)% | \$ 1,563,502 | 100% |

| | Six Months Ended | | | | |
|----------------------|---------------------|---------------|-------------|---------------------|---------------|
| | May 4, 2019 | | | May 5, 2018 | |
| | Revenue | % of Revenue* | Y/Y% | Revenue (1) | % of Revenue* |
| Industrial | \$ 1,488,077 | 49 % | (6) % | \$ 1,590,445 | 51 % |
| Automotive | 511,319 | 17 % | (1) % | 515,791 | 16 % |
| Consumer | 362,966 | 12 % | (26) % | 491,711 | 16 % |
| Communications | 705,341 | 23 % | 32 % | 532,425 | 17 % |
| Total revenue | \$ 3,067,703 | 100% | (2)% | \$ 3,130,372 | 100% |

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

(1) Balances have been restated to reflect the full retrospective adoption ASU 2014-09. See Note 1, *Basis of Presentation*, in the Notes to Condensed Consolidated Financial Statements in Part I, Item 1 of this Quarterly Report on Form 10-Q.

Industrial end market revenues decreased in the three-month period ended May 4, 2019, as compared to the same period of the prior fiscal year, primarily as a result of a decrease in demand for products sold into the automation and memory test sectors of this end market, partially offset by an increase in demand for products sold into the aerospace and defense sector of this end market. Consumer end market revenues decreased in the three-month period ended May 4, 2019, as compared to the same period of the prior fiscal year as a result of decreased demand for products used in portable consumer applications. Communications end market revenue increased in the three-month period ended May 4, 2019, as compared to the same period of the prior fiscal year, primarily as a result of an increase in demand for our products sold into the wireless sector and to a lesser extent wireline sector of this end market.

Industrial end market revenues decreased in the six-month period ended May 4, 2019, as compared to the same period of the prior fiscal year, as a result of one less week of operations in the first six months of fiscal 2019, as compared to the first six months of fiscal 2018, and a decrease in demand for products sold into the automation and memory test sectors of this end market, partially offset by an increase in demand for products sold into the aerospace and defense sector of this end market. Consumer end market revenues decreased in the six-month period ended May 4, 2019, as compared to the same period of the prior fiscal year as a result of decreased demand for products used in portable consumer applications and one less week of operations in the first six months of fiscal 2019 as compared to the first six months of fiscal 2018. Communications end market revenue increased in the six-month period ended May 4, 2019, as compared to the same period of the prior fiscal year, as a result of an increase in demand for our products sold into the wireless sector and to a lesser extent wireline sector of this end market, partially offset by one less week of operations in the first six months of fiscal 2019 as compared to the first six months of fiscal 2018.

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 some commercial customers. The following table summarizes revenue by channel for the three- and six-month periods ended May 4, 2019 and May 5, 2018:

| Channel | Three Months Ended | | | |
|----------------------|--------------------|---------------|------------------|---------------|
| | May 4, 2019 | | May 5, 2018 | |
| | Revenue | % of Revenue* | Revenue (1) | % of Revenue* |
| Distributors | 871,510 | 57% | 869,277 | 56% |
| Direct customers | 638,277 | 42% | 675,188 | 43% |
| Other | 16,815 | 1% | 19,037 | 1% |
| Total revenue | 1,526,602 | 100% | 1,563,502 | 100% |

| Channel | Six Months Ended | | | |
|----------------------|------------------|---------------|------------------|---------------|
| | May 4, 2019 | | May 5, 2018 | |
| | Revenue | % of Revenue* | Revenue (1) | % of Revenue* |
| Distributors | 1,700,753 | 55% | 1,734,289 | 55% |
| Direct customers | 1,333,766 | 43% | 1,348,591 | 43% |
| Other | 33,184 | 1% | 47,492 | 2% |
| Total revenue | 3,067,703 | 100% | 3,130,372 | 100% |

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

(1) Balances have been restated to reflect the full retrospective adoption of ASU 2014-09. See Note 1, *Basis of Presentation*, in the Notes to Condensed Consolidated Financial Statements in Part I, Item 1 of this Quarterly Report on Form 10-Q.

Gross Margin

| | Three Months Ended | | | | Six Months Ended | | | |
|----------------|--------------------|--------------------|-------------|----------|------------------|--------------------|-------------|----------|
| | May 4, 2019 | May 5, 2018 (1) | \$ Change | % Change | May 4, 2019 | May 5, 2018 (1) | \$ Change | % Change |
| Gross margin | \$1,034,092 | \$1,072,390 | \$ (38,298) | (4)% | \$2,073,748 | \$2,144,073 | \$ (70,325) | (3)% |
| Gross margin % | 67.7% | 68.6% | | | 67.6% | 68.5% | | |

(1) Balances have been restated to reflect the full retrospective adoption of ASU 2014-09. See Note 1, *Basis of Presentation*, in the Notes to Condensed Consolidated Financial Statements in Part I, Item 1 of this Quarterly Report on Form 10-Q.

Gross margin percentage decreased by 90 basis points in the three- and six-month periods ended May 4, 2019, as compared to the same periods of the prior fiscal year, primarily as a result of lower internal utilization of our wafer fabrication facilities and a higher concentration of our revenue from lower margin products.

Research and Development (R&D)

| | Three Months Ended | | | | Six Months Ended | | | |
|--------------------------------|--------------------|-------------|------------|----------|------------------|-------------|------------|----------|
| | May 4, 2019 | May 5, 2018 | \$ Change | % Change | May 4, 2019 | May 5, 2018 | \$ Change | % Change |
| R&D expenses | \$ 285,846 | \$ 289,472 | \$ (3,626) | (1)% | \$ 573,228 | \$ 578,069 | \$ (4,841) | (1)% |
| R&D expenses as a % of revenue | 18.7% | 18.5% | | | 18.7% | 18.5% | | |

R&D expenses remained relatively flat in the three-month period ended May 4, 2019, as compared to the same period of the prior fiscal year as decreases in variable compensation expense were partially offset by increases in operational spending and R&D employee and related benefit expenses.

R&D expenses remained relatively flat in the six-month period ended May 4, 2019, as compared to the same period of the prior fiscal year as decreases in variable compensation expense and one less week of operations in the first six months of fiscal 2019 as compared to the first six months of fiscal 2018 were partially offset by increases in operational spending and R&D employee and related benefit expenses.

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

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

| | Three Months Ended | | | | Six Months Ended | | | |
|----------------------------------|--------------------|-------------|------------|----------|------------------|-------------|-------------|----------|
| | May 4, 2019 | May 5, 2018 | \$ Change | % Change | May 4, 2019 | May 5, 2018 | \$ Change | % Change |
| SMG&A expenses | \$ 163,128 | \$ 172,146 | \$ (9,018) | (5)% | \$ 330,470 | \$ 349,054 | \$ (18,584) | (5)% |
| SMG&A expenses as a % of revenue | 10.7% | 11.0% | | | 10.8% | 11.2% | | |

SMG&A expenses decreased in the three month period ended May 4, 2019, as compared to the same period of the prior fiscal year, primarily as a result of decreases in variable compensation expense and acquisition-related costs, partially offset by increases in operational spending and SMG&A employee and related benefit expenses.

SMG&A expenses decreased in the six-month period ended May 4, 2019, as compared to the same period of the prior fiscal year, primarily as a result of decreases in variable compensation expense, acquisition-related costs and one less week of operations in the first six months of fiscal 2019 as compared to the first six months of fiscal 2018, partially offset by increases in operational spending and SMG&A employee and related 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.

During the first and second quarters of fiscal 2019, we recorded special charges of \$20.7 million and \$3.6 million, respectively, as a result of organizational initiatives to reposition our global workforce skill set to align with our long-term strategic plan. Approximately \$19.8 million of the charges for the first and second quarters of fiscal 2019 was for severance and fringe benefit costs in accordance with either our ongoing benefit plan or statutory requirements for 140 engineering and SMG&A employees. As of May 4, 2019, we still employed 68 of the 140 employees included in this action. These employees must continue to be employed by us until their employment is involuntarily terminated in order to receive the severance benefits. The remaining \$4.4 million of the charge related to the write off of acquired intellectual property during the first quarter of fiscal 2019 due to our discontinuance of certain product development strategies. We do not expect this action to result in any annual savings.

We recorded special charges of \$48.7 million on a cumulative basis through May 4, 2019 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 \$5.7 million was recorded in the first six months of fiscal 2019 related to one-time termination benefits for employees included in this action. These one-time termination benefits are being recognized over the future service period required for employees to earn these benefits. Employees included in this action must continue to be employed by us until their employment is terminated by us in order to receive the severance benefits.

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 4, 2019 | May 5, 2018 | \$ Change | % Change | May 4, 2019 | May 5, 2018 | \$ Change | % Change |
| Operating income | \$ 469,695 | \$ 502,554 | \$ (32,859) | (7)% | \$ 925,521 | \$ 944,395 | \$ (18,874) | (2)% |
| Operating income as a % of revenue | 30.8% | 32.1% | | | 30.2% | 30.2% | | |

The year-over-year decrease in operating income in the three-month period ended May 4, 2019 was primarily the result of a \$38.3 million decrease in gross margin and a \$7.1 million increase in special charges, partially offset by a \$9.0 million decrease in SMG&A expenses and a \$3.6 million decrease in R&D expenses, as more fully described above under the headings *Gross Margin, Special Charges, Selling, Marketing, General and Administrative (SMG&A) and Research and Development (R&D)*.

The year-over-year decrease in operating income in the six-month period ended May 4, 2019 was primarily the result of a \$70.3 million decrease in gross margin, partially offset by a \$28.5 million decrease in special charges, a \$18.6 million decrease in SMG&A expenses and a \$4.8 million decrease in R&D expenses as more fully described above under the headings *Gross Margin, Special Charges, Selling, Marketing, General and Administrative (SMG&A), and Research and Development (R&D)*.

Nonoperating Expense (Income)

| | Three Months Ended | | | Six Months Ended | | |
|-------------------------------------|--------------------|-------------|------------|------------------|-------------|-------------|
| | May 4, 2019 | May 5, 2018 | \$ Change | May 4, 2019 | May 5, 2018 | \$ Change |
| Interest expense | \$ 59,701 | \$ 64,792 | \$ (5,091) | \$ 118,429 | \$ 132,822 | \$ (14,393) |
| Interest income | (2,928) | (1,912) | (1,016) | (5,616) | (4,004) | (1,612) |
| Other, net | 4,525 | (451) | 4,976 | 4,365 | 105 | 4,260 |
| Total nonoperating expense (income) | \$ 61,298 | \$ 62,429 | \$ (1,131) | \$ 117,178 | \$ 128,923 | \$ (11,745) |

The year-over-year decrease in nonoperating expense in the three- and six-month periods ended May 4, 2019 was primarily the result of a decrease in interest expense including lower amortized finance fees, which were accelerated as a result of principal repayments related to our 3-year term loan, partially offset by an increase in other, net expenses, primarily resulting from the impairment of an investment recognized in the second quarter of fiscal 2019.

Provision for Income Taxes

| | Three Months Ended | | | Six Months Ended | | |
|----------------------------|--------------------|--------------------|-----------|------------------|--------------------|-------------|
| | May 4, 2019 | May 5, 2018 (1) | \$ Change | May 4, 2019 | May 5, 2018 (1) | \$ Change |
| Provision for income taxes | \$ 40,460 | \$ 39,797 | \$ 663 | \$ 85,400 | \$ 121,904 | \$ (36,504) |
| Effective income tax rate | 9.9% | 9.0% | | 10.6% | 14.9% | |

(1) Balances have been restated to reflect the full retrospective adoption of ASU 2014-09. See Note 1, *Basis of Presentation*, in the Notes to Condensed Consolidated Financial Statements in Part I, Item 1 of this Quarterly Report on Form 10-Q.

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 income tax rate can also be impacted each year by discrete factors or events.

The tax rate for the three- and six-month periods ended May 4, 2019 was 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 tax rate for the six-month period also includes 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 transition tax which yielded a \$7.5 million tax benefit. Our tax rate for the six-month period ended May 5, 2018 was below our then blended U.S. federal statutory tax rate of 23.4%, resulting from the passage of the Tax Cuts and Jobs Act of 2017 (Tax Legislation), primarily due to lower statutory tax rates applicable to our operations in the foreign jurisdictions in which we earn income. Additionally, our effective tax rate for the six-month period ended May 5, 2018 also included a provisional estimate for a discrete tax benefit of \$639.7 million from remeasuring our U.S. deferred tax liabilities at the lower 21% statutory tax rate. It also included a provisional estimate of the discrete tax charge of \$687.1 million from the Tax Legislation's one-time transition tax associated with our undistributed foreign earnings, comprised of a \$751.1 million transitional tax less a deferred tax liability of \$64.0 million recorded in prior years.

Additionally, we recorded discrete benefits for excess tax benefits from share-based payments of \$16.5 million and \$20.8 million in the three- and six-month periods ended May 4, 2019, compared to \$8.2 million and \$18.2 million in the three- and six-month periods ended May 5, 2018. The full year tax benefit from share-based payments was \$26.2 million in fiscal 2018.

Non-U.S. jurisdictions accounted for a significant portion of our total revenues for the six-month periods ended May 4, 2019 and May 5, 2018. This revenue generated outside of the U.S. results in a material portion of our pretax income being taxed outside the U.S. For the six-month period ended May 4, 2019 this pretax income was primarily in Ireland and Singapore, at tax rates ranging from 12.5% to 17% in these jurisdictions. For the six-month period ended May 5, 2018 this pretax income was primarily in Bermuda, Ireland and Singapore, at tax rates ranging from 0% to 12.5% 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 4, 2019 | May 5, 2018 (1) | \$ Change | % Change | May 4, 2019 | May 5, 2018 (1) | \$ Change | % Change |
| Net Income | \$ 367,937 | \$ 400,328 | \$ (32,391) | (8)% | \$ 722,943 | \$ 693,568 | \$ 29,375 | 4% |
| Net Income as a % of revenue | 24.1% | 25.6% | | | 23.6% | 22.2% | | |
| Diluted EPS | \$ 0.98 | \$ 1.06 | | | \$ 1.93 | \$ 1.84 | | |

(1) Balances have been restated to reflect the full retrospective adoption of ASU 2014-09. See Note 1, *Basis of Presentation*, in the Notes to Condensed Consolidated Financial Statements in Part I, Item 1 of this Quarterly Report on Form 10-Q.

Net income decreased in the three-month period ended May 4, 2019, as compared to the same period of the prior fiscal year, as a result of a \$32.9 million decrease in operating income and a \$0.7 million increase in provision for income taxes, partially offset by a \$1.1 million decrease in nonoperating expense.

Net income increased in the six-month period ended May 4, 2019 as compared to the same period of the prior fiscal year, as a result of a \$36.5 million decrease in provision for income taxes and a \$11.7 million decrease in nonoperating expense, partially offset by a \$18.9 million decrease in operating income.

Liquidity and Capital Resources

At May 4, 2019, our principal source of liquidity was \$713.6 million of cash and cash equivalents, of which approximately \$267.7 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 continue to assert our intent to reinvest substantially all of our foreign earnings indefinitely. As we intend to reinvest substantially all of our foreign earnings indefinitely, certain cash held outside the United States may not be available for repatriation as dividends to the United States in the future. If such funds are needed for U.S. operations, we would be required to accrue and pay foreign withholding taxes and U.S. state income taxes to the extent not already subject to taxation. 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 4, 2019 | May 5, 2018 (1) |
| Net cash provided by operating activities | \$ 1,042,649 | \$ 1,107,182 |
| Net cash provided by operations as a % of revenue | 34.0% | 35.4% |
| Net cash used for investing activities | \$ (170,787) | \$ (170,490) |
| Net cash used for financing activities | \$ (975,069) | \$ (1,178,171) |

(1) Balances have been restated to reflect the full retrospective adoption of ASU 2014-09. See Note 1, *Basis of Presentation*, in the Notes to Condensed Consolidated Financial Statements in Part I, Item 1 of this Quarterly Report on Form 10-Q.

At May 4, 2019, cash and cash equivalents totaled \$713.6 million. The following changes contributed to the net change in cash and cash equivalents in the six-month period ended May 4, 2019 as compared to the same period in fiscal 2018.

Operating Activities

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

The decrease in cash provided by operating activities during the six-month period ended May 4, 2019, as compared to the same period of the prior fiscal year, was primarily the result of changes in working capital partially offset by higher net income and a reduction in non-cash items primarily related to deferred income tax adjustments related to the Tax Legislation.

Investing Activities

Investing cash flows consist primarily of capital expenditures and cash used for acquisitions. Cash used for investing activities during the six-month period ended May 4, 2019, as compared to the same period of the prior fiscal year, remained flat, as increased capital spending was offset by decreased payments for acquisitions.

Financing Activities

Financing cash flows consist primarily of payments of dividends to stockholders, repurchases of common stock, issuance and repayment of long-term debt, and proceeds from the sale of shares of common stock pursuant to employee equity incentive plans. The increase in cash related to financing activities during the six-month period ended May 4, 2019, as compared to the same period of the prior fiscal year, was primarily due to a decrease in repayments on our 3-year unsecured term loan, partially offset by less net proceeds from debt issuances and increases in stock repurchases and dividend payments.

Working Capital

| | May 4, 2019 | November 3, 2018 | \$ Change | % Change |
|----------------------------------|-------------|------------------|-----------|----------|
| Accounts receivable, net | \$ 685,978 | \$ 639,717 | \$ 46,261 | 7% |
| Days sales outstanding* | 42 | 40 | | |
| Inventory | \$ 608,085 | \$ 586,760 | \$ 21,325 | 4% |
| Days cost of sales in inventory* | 111 | 107 | | |

* We use the average of the current quarter and prior quarter ending net accounts receivable and ending inventory balances in our calculation of days sales outstanding and days cost of sales in inventory, respectively. Fiscal 2018 amounts have been restated to reflect the full retrospective adoption of ASU 2014-09. See Note 1, *Basis of Presentation*, in the Notes to Condensed Consolidated Financial Statements in Part I, Item 1 of this Quarterly Report on Form 10-Q.

The increase in accounts receivable in dollars was primarily the result of normal variations in the timing of collections and billings.

Inventory in dollars increased, 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 \$1.4 billion at May 4, 2019 from \$1.1 billion at the end of fiscal 2018. The increase was primarily due to an increase of \$307.2 million in the current portion of our debt, an increase in income taxes payable of \$30.6 million, partially offset by a decrease in accounts payable of \$52.7 million.

Debt

As of May 4, 2019, we had \$6.0 billion of carrying value outstanding on our long-term debt. The difference in the carrying value of the debt and the principal is due to the unamortized discount and issuance fees on these instruments that will accrete to the face value over the term of the debt. Our debt obligations consist of the following:

| | Principal Amount Outstanding |
|--|---|
| 3-Year term loan, due March 2020 | \$ 75,000 |
| 5-Year term loan, due March 2022 | 1,350,000 |
| 2.85% Senior unsecured notes, due March 2020 | 300,000 |
| 2.90% 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 |
| 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 | \$ 6,025,000 |

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 4, 2019, we were in compliance with these covenants.

Revolving Credit Facility

We have a senior unsecured revolving credit facility with certain institutional lenders that expires on July 10, 2020. The agreement for such revolving credit facility (Credit Agreement) provides that we may borrow up to \$1.0 billion. In December 2018 we borrowed \$75.0 million under this revolving credit facility and utilized the proceeds for the repayment of existing indebtedness and working capital requirements. We repaid the \$75 million plus interest of \$0.2 million in January 2019. 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 Credit Agreement impose restrictions on our ability to undertake certain transactions, to create certain liens on assets and to incur certain subsidiary indebtedness. In addition, the Credit Agreement contains a consolidated leverage ratio covenant of total consolidated funded debt to consolidated earnings before interest, taxes, depreciation, and amortization (EBITDA) of not greater than 4.5 to 1.0. The debt covenant is being reduced over time to 3.0 to 1.0, which began in May 2018. As of May 4, 2019, we were compliant with these covenants.

Stock Repurchase Program

Our common stock repurchase program has been in place since August 2004. In the aggregate, our Board of Directors has authorized us to repurchase \$8.2 billion of our common stock under the program. Under the program, we may repurchase outstanding shares of our common stock from time to time in the open market and through privately negotiated transactions. Unless terminated earlier by resolution of our Board of Directors, the repurchase program will expire when we have repurchased all shares authorized under the program. As of May 4, 2019, we had repurchased a total of approximately 152.0 million shares of our common stock for approximately \$5.8 billion under this program. As of May 4, 2019, an additional \$2.3 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, from time to time, repurchase shares in settlement of employee tax withholding obligations due upon the vesting of restricted stock units/awards or the exercise of stock options.

Capital Expenditures

Net additions to property, plant and equipment were \$166.2 million in the first six months of fiscal 2019 and were funded with a combination of cash on hand and cash generated from operations. We expect capital expenditures for fiscal 2019 to be approximately 5% of fiscal 2019 revenue. These capital expenditures will be funded with a combination of cash on hand and cash generated from operations.

Dividends

On May 21, 2019, our Board of Directors declared a cash dividend of \$0.54 per outstanding share of common stock. The dividend will be paid on June 11, 2019 to all shareholders of record at the close of business on May 31, 2019 and is expected to total approximately \$199.7 million. We currently expect quarterly dividends to continue at \$0.54 per share, although they remain subject to determination and declaration by our Board of Directors. The payment of future dividends, if any, will be based on several factors, including our financial performance, outlook and liquidity.

Contractual Obligations

There have not been any material changes during the six-month period ended May 4, 2019 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 3, 2018.

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 our 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.

Revenue Recognition

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (ASU 2014-09), which supersedes nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Additionally, the guidance requires improved disclosures to help users of financial statements better understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The FASB has issued several amendments and updates to the new revenue standard, including guidance related to when an entity should recognize revenue gross as a principal or net as an agent and how an entity should identify performance obligations. We adopted ASU 2014-09 in the first quarter of fiscal 2019, using the full retrospective method and restated prior periods. As a result of the adoption of ASU 2014-09, we changed our accounting policy for revenue recognition. See Note 1, *Basis of Presentation*, and Note 2, *Revenue Recognition*, in the Notes to our Condensed Consolidated Financial Statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for details of the impact of ASU 2014-09 on our financial statements.

Income Taxes

In October 2016, the FASB issued ASU 2016-16, *Income Taxes (Topic 740)* (ASU 2016-16). ASU 2016-16 requires an entity to recognize the income tax consequences of an intra-entity transfer of an asset, other than inventory, when the transfer occurs. ASU 2016-16 is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. We adopted ASU 2016-16 in the first quarter of fiscal 2019 using the modified retrospective method with a cumulative-effect adjustment directly to retained earnings. The adoption of ASU 2016-16 resulted in a cumulative-effect increase in our deferred tax assets of approximately \$1.7 billion and an increase to our deferred tax liabilities of \$1.3 billion.

Critical Accounting Policies and Estimates

Except for the accounting policy for revenue recognition that was updated as a result of adopting ASU 2014-09, *Revenue from Contracts with Customers* (ASU 2014-09), there were no other material changes in the six-month period ended May 4, 2019 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 3, 2018.

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Exposure

Based on the \$1.4 billion of floating rate debt outstanding as of May 4, 2019, our annual interest expense would change by approximately \$14.3 million for each 100 basis point increase in interest rates.

There were no other material changes in the six-month period ended May 4, 2019 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 3, 2018.

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 4, 2019. 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 4, 2019, 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 4, 2019 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 3, 2018.

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

Continuing uncertainty regarding the stability of global credit and financial markets may lead consumers and businesses to postpone spending, which may cause our customers to cancel, decrease or delay their existing and future orders for our products and make it difficult for us to accurately forecast and plan our future business activities. Significant disruption to global credit and financial markets may also adversely affect our ability to access external financing sources on acceptable terms. Financial difficulties experienced by our customers could result in nonpayment or payment delays for previously purchased products, thereby increasing our credit risk exposure. Uncertainty regarding the future stability of the global credit and financial markets could cause the value of the currency in the affected markets to deteriorate, thus reducing the purchasing power of those customers. In addition, financial difficulties experienced by our suppliers, 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.

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

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

- the effects of adverse economic conditions in the markets in which we sell our products;
- changes in customer demand for our products and/or for end products that incorporate our products;
- the timing, delay, reduction or cancellation of significant customer orders and our ability to manage inventory;
- fluctuations in customer order patterns and seasonality;
- our ability to 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 warranty and/or indemnity claims, including those not covered by our suppliers or insurers;
- the difficulties inherent in forecasting future operating expense levels, including with respect to costs associated with labor, utilities, transportation and raw materials;
- the costs related to compliance with increasing worldwide government, environmental and social responsibility regulations;
- new accounting pronouncements or changes in existing accounting standards and practices; and
- the effects of public health emergencies, natural disasters, widespread travel disruptions, security risks, terrorist activities, international conflicts 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.

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

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

- the inability to successfully integrate Linear's business into our own in a manner that permits the combined company to achieve the cost savings and operating synergies anticipated to result from the Acquisition, which could result in the anticipated benefits of the Acquisition not being realized partly or wholly in the time frame currently anticipated or at all;
- integrating personnel, IT systems and corporate, finance and administrative infrastructures of the two companies while maintaining focus on providing consistent, high quality products and services;
- coordinating and integrating our internal operations, compensation and benefits programs, policies and procedures, and corporate structures; and
- servicing the substantial debt that we have incurred in connection with the Acquisition.

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

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 six months of the fiscal year ending November 2, 2019 was below our U.S. federal statutory rate of 21%. It was also below our blended U.S. federal statutory tax rate of 23.4% for the fiscal year ended November 3, 2018. 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.

In addition, we are 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 and other methods, to protect our proprietary technologies and processes. Despite our efforts to protect our intellectual property, it is possible that competitors or other unauthorized third parties may obtain, copy, reverse engineer, use or disclose our technologies, products and processes. Moreover, the laws of foreign countries in which we design, manufacture, market and sell our products may afford little or no effective protection of our proprietary intellectual property.

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

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

A significant disruption in, or breach in security of, our information technology systems 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. 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, nonetheless those third parties may also be subject to security breaches or otherwise compromise the protection of such information. Security breaches of our information technology systems or those of our partners could result in the misappropriation or unauthorized disclosure of confidential and proprietary information belonging to us or to our employees, partners, customers or suppliers, which could result in our suffering significant financial or reputational damage.

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

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

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

Our future success significantly depends on our continued ability to execute our business strategy, continue to improve our existing products and design, develop, produce and market innovative new products 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. In addition, our growth is dependent on our ability to generate new design opportunities and win competitive bid selection processes. Failure to obtain or maintain a particular design win may prevent us from obtaining or maintaining design wins in subsequent generations of a particular product and could also weaken our position in future competitive selection processes. Our growth is also dependent on our ability to identify and penetrate new markets where we have limited experience and competition is intense. Some of our customers in new markets are less established, which could subject us to increased credit risk. There can be no assurance that the markets we serve and/or target based on our business strategy will grow in the future, that our existing and new products will meet the requirements of these markets, that our products, or the products in which our products are used, will achieve customer acceptance in these markets, that competitors will not force price reductions or take market share from us, or that we can achieve or maintain adequate gross margins or profits in these markets. Additionally, developing markets, such as the Industry 4.0, autonomous driving, artificial intelligence and 5G, require significant investments, resources and technological advancements in order to compete effectively and there can be no assurance that we will achieve success in these markets. Furthermore, a decline in demand in one or several of our end-user markets could have a material adverse effect on the demand for our products and our results of operations.

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

We face intense competition in the semiconductor industry, and we expect this competition to increase in the future, including from companies located outside of the United States. Competition is generally based on innovation, design, quality and reliability of products, product performance, features and functionality, product pricing, availability and capacity, technological service and support, and the availability of integrated system solutions, with the relative importance of these factors varying among products, markets and customers. Many companies have sufficient financial, manufacturing, technical, sales and marketing resources to develop and market products that compete with our products. Some of our competitors may have more advantageous supply or development relationships with our current and potential customers or suppliers. Our

competitors also include emerging companies selling specialized products in markets we serve and entities outside of the U.S., including entities associated with 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-party suppliers, subcontractors and manufacturers for some industry-standard wafers, manufacturing processes, assembly and test services, and transportation, and we generally cannot control their availability or conditions of supply.

We rely, and plan to continue to rely, on third-party suppliers, assembly and test subcontractors, freight carriers and wafer fabricators (collectively, suppliers) to supply most of our products that can be manufactured using industry-standard processes. 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 fabrication foundries, such as Taiwan Semiconductor Manufacturing Company (TSMC), Global Foundries, Vanguard, and others. In addition, these suppliers often provide manufacturing services to our competitors and therefore periods of increased industry demand may result in capacity constraints. In certain instances, the third-party supplier is the sole source of highly specialized processing services. If our suppliers are unable or unwilling to manufacture and deliver components to us on the time schedule and of the quality or quantity that we require or provide us with required manufacturing processes, we may be forced to seek to engage additional or replacement suppliers, which could result in additional expenses and delays in product development or shipment of product to our customers. If additional or replacement suppliers or manufacturing processes are not available, we may also experience delays in product development or shipment which could, in turn, result in the temporary or permanent loss of customers.

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

In addition to leveraging an outsourcing model for manufacturing operations, we also rely on our internal manufacturing operations located in the United States, Ireland, the Philippines, Singapore and Malaysia. A prolonged disruption at, or inability to utilize, one or more of our manufacturing facilities, loss of raw materials or damage to our manufacturing equipment for any reason, including due to natural or man-made disasters, 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 term loans and senior unsecured notes.

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

- seek additional financing in the debt or equity markets;
- refinance or restructure all or a portion of our indebtedness;
- borrow under our revolving credit facility;
- divert funds that would otherwise be invested in our operations;
- repatriate earnings as dividends from foreign locations, attracting foreign withholding and state and local income taxes;
- sell selected assets; or

- reduce or delay planned capital expenditures or operating expenditures.

Such measures might not be sufficient to enable us to service our debt, which could negatively impact our financial results. In addition, 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.

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

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

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

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

Semiconductor products are highly complex and may contain defects when they are first introduced or as new versions are developed. Failures in our products and services or in the products of customers could result in damage to our reputation 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 our products to our customers for one year from the date title passes from us. We invest significant resources in the testing of our products; however, if any of our products contain defects, we may be required to incur additional development and remediation costs pursuant to warranty and indemnification provisions in our customer contracts and purchase orders. These problems may divert our technical and other resources from other product development efforts and could result in claims against us by our customers or others, including liability for costs and expenses associated with product recalls, which may adversely impact our operating results. We may also be subject to customer indemnity claims. Our customers have on occasion been sued, and may be sued in the future, by third parties alleging infringement of intellectual property rights, or damages resulting from use of our products. Those customers may seek indemnification from us under the terms and conditions of our sales contracts with them. In certain cases, our potential indemnification liability may be significant. If any of our products contain defects, or have reliability, quality or compatibility problems, our reputation may be damaged, which could make it more difficult for us to sell our products to customers and 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 executive officers and key management and technical personnel, particularly our experienced engineers. The competition for these employees is intense. The loss of the services of one or more of our key personnel could have a material adverse effect on our operating results. 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. In addition, there could be a material adverse effect on our business should the turnover rates for engineers and other key personnel increase significantly or if we are unable to continue to attract, hire and retain qualified personnel. 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 difficult to identify and complete for a number of reasons, including the cost of potential transactions, competition among prospective buyers and licensees, the need for regulatory approvals, and difficulties related to integration efforts. In addition, investments in private companies are subject to a risk of a partial or total loss of our investment. Both in the U.S. and abroad, governmental regulation of acquisitions, including antitrust reviews and approvals, has become more complex, increasing the costs and risks of undertaking and consummating significant acquisitions. In order to finance a potential transaction, we may need to raise additional funds by issuing securities or borrowing money. We may not be able to obtain financing on favorable terms, and the sale of our stock may result in the dilution of our existing shareholders or the issuance of securities with rights that are superior to the rights of our common shareholders.

Acquisitions also involve a number of challenges and risks, including:

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

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 foreign markets;
- currency conversion risks and exchange rate and interest rate fluctuations;
- trade policy, trade, 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 price protection, competition practices, export control regulations and restrictions, customs and tax requirements, immigration, anti-boycott regulations, data privacy, intellectual property, anti-corruption and environmental compliance, including U.S. customs and export regulations and restrictions, International Traffic in Arms Regulations and the Foreign Corrupt Practices Act;
- economic disruption from terrorism and threats of terrorism and the response to them by the U.S. and its allies;
- increased managerial complexities, including different employment practices and labor issues;
- 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 pandemics;
- transportation disruptions and delays and increases in labor and transportation costs;
- changes to foreign taxes, tariffs and freight rates;
- fluctuations in raw material costs and energy costs;
- greater difficulty in accounts receivable collections and longer collection periods; and
- costs associated with our foreign defined benefit pension plans.

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

Many of these risks are present in China. While we expect to continue to expand our business and operations in China, our success in the Chinese markets may be adversely affected by China's continuously evolving policies, laws and regulations, including those relating to trade, taxation, import and export tariffs or restrictions, currency controls, 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. Enforcement of existing laws or agreements may be inconsistent. In addition, changes in the political environment, governmental policies, international trade policies and relations, or U.S.-China relations could result in revisions to laws or regulations or their interpretation and enforcement, exposure of our proprietary intellectual property, increased taxation, trade sanctions, the imposition of import duties or tariffs, restrictions on imports or exports, currency revaluations, or retaliatory actions, which could have an adverse effect on our business plans and operating results.

At May 4, 2019, our principal source of liquidity was \$713.6 million of cash and cash equivalents, of which approximately \$267.7 million was held in the United States and the remaining balance was held outside the United States in various foreign subsidiaries. We continue to assert our intent to reinvest substantially all of our foreign earnings indefinitely.

As we intend to reinvest substantially all of our foreign earnings indefinitely, certain cash held outside the United States may not be available for repatriation as dividends to the United States in the future. 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 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 sole global distributor. These independent distributors generally represent product lines offered by several companies and thus could reduce their sales efforts applied to our products or they could terminate their representation of us. We generally do not require letters of credit from our distributors and are not protected against accounts receivable default or declarations of bankruptcy by these distributors. Our inability to collect open accounts receivable could adversely affect our operating results. Termination of a significant distributor or a group of distributors, whether at our initiative or the distributor's initiative or through consolidation in the distribution industry, could disrupt our current business, and if we are unable to find suitable replacements 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 environmental requirements that control and restrict the sourcing, use, transportation, emission, discharge, storage and disposal of certain chemicals, and materials used or produced in the semiconductor manufacturing process. Public attention to environmental, sustainability and social responsibility concerns continues to increase, and our customers routinely include stringent environmental and other standards in their contracts with us. Changes in EHS laws or regulations may require us to invest in costly equipment or 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.

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

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

In connection with our United States government business, we are also subject to government audits and to review and approval of our policies, procedures, and internal controls for compliance with procurement regulations and applicable laws. In certain circumstances, if we do not comply with the terms of a contract or with regulations or statutes, we could be subject to

downward contract price adjustments or refund obligations or could in extreme circumstances be assessed civil and criminal penalties or be debarred or suspended from obtaining future contracts for a specified period of time. Any such suspension or debarment or other sanction could have an adverse effect on our business.

Under some of our government subcontracts, we are required to maintain secure facilities and to obtain security clearances for personnel involved in performance of the contract, in compliance with applicable federal standards. If we were unable to comply with these requirements, or if personnel critical to our performance of these contracts were unable to obtain or maintain their security clearances, we might be unable to perform these contracts or compete for other projects of this nature, which could adversely affect our revenue.

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

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

Our stock price may be volatile.

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

- global economic conditions generally;
- crises in global credit, debt and financial markets;
- actual or anticipated fluctuations in our revenue and operating results;
- changes in financial estimates or other statements made by securities analysts or others in analyst reports or other publications or our failure to perform in line with those estimates or statements or our published guidance;
- financial results and prospects of our customers;
- U.S. and foreign government actions, 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 3, 2019 through March 2, 2019 | 46,582 | \$ 106.54 | 37,402 | \$ 2,393,976,912 |
| March 3, 2019 through March 30, 2019 | 496,726 | \$ 107.03 | 186,056 | \$ 2,373,997,691 |
| March 31, 2019 through May 4, 2019 | 381,298 | \$ 113.80 | 342,620 | \$ 2,335,008,817 |
| Total | <u>924,606</u> | \$ 109.80 | <u>566,078</u> | \$ 2,335,008,817 |

- (a) Includes 358,528 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

| <u>Exhibit No.</u> | <u>Description</u> |
|--------------------|---|
| 10.1† | <u>Form of Relative TSR Performance Restricted Stock Unit Agreement for Employees for usage under the Company's Amended and Restated 2006 Stock Incentive Plan</u> |
| 10.2† | <u>Form of Financial Metric Performance Restricted Stock Unit Agreement for Employees for usage under the Company's Amended and Restated 2006 Stock Incentive Plan</u> |
| 31.1† | <u>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).</u> |
| 31.2† | <u>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).</u> |
| 32.1† | <u>Certification Pursuant to 18 U.S.C. Section 1350 (Chief Executive Officer).</u> |
| 32.2† | <u>Certification Pursuant to 18 U.S.C. Section 1350 (Chief Financial Officer).</u> |
| 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 | XBRL Schema Document.** |
| 101.CAL | XBRL Calculation Linkbase Document.** |
| 101.LAB | XBRL Labels Linkbase Document.** |
| 101.PRE | XBRL Presentation Linkbase Document.** |
| 101.DEF | XBRL Definition Linkbase Document.** |
| † | Filed or furnished herewith. |
| ** | Submitted electronically herewith. |

Attached as Exhibit 101 to this report are the following formatted in XBRL (Extensible Business Reporting Language): (i) Condensed Consolidated Statements of Income for the three and six months ended May 4, 2019 and May 5, 2018, (ii) Condensed Consolidated Statements of Comprehensive Income for the three and six months ended May 4, 2019 and May 5, 2018, (iii) Condensed Consolidated Balance Sheets at May 4, 2019 and November 3, 2018, (iv) Condensed Consolidated Statements of Shareholders' Equity for the three and six months ended May 4, 2019 and May 5, 2018, (v) Condensed Consolidated Statements of Cash Flows for the six months ended May 4, 2019 and May 5, 2018 and (vi) Notes to Condensed Consolidated Financial Statements for the three and six months ended May 4, 2019.

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 22, 2019

By: /s/ Vincent Roche

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

Date: May 22, 2019

By: /s/ Prashanth Mahendra-Rajah

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