

ANALOG DEVICES INC
Form 10-Q
August 30, 2017

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 July 29, 2017

OR

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

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

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

Massachusetts 04-2348234
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

One Technology Way, Norwood, MA 02062-9106
(Address of principal executive offices) (Zip Code)

(781) 329-4700
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES NO

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

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

Large accelerated filer Accelerated filer

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

Emerging growth company

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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 July 29, 2017 there were 367,667,745 shares of common stock of the registrant, \$0.16 2/3 par value per share, outstanding.

PART I - FINANCIAL INFORMATION

ITEM 1. Financial Statements

ANALOG DEVICES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(thousands, except per share amounts)

	Three Months Ended		Nine Months Ended	
	July 29, 2017	July 30, 2016	July 29, 2017	July 30, 2016
Revenue	\$1,433,902	\$869,591	\$3,566,333	\$2,417,786
Cost of sales (1)	667,278	297,301	1,510,762	857,300
Gross margin	766,624	572,290	2,055,571	1,560,486
Operating expenses:				
Research and development (1)	275,670	163,227	694,856	480,890
Selling, marketing, general and administrative (1)	183,980	122,909	505,325	342,557
Amortization of intangibles	112,153	17,447	199,003	52,224
Special charges	—	—	49,463	13,684
	571,803	303,583	1,448,647	889,355
Operating income	194,821	268,707	606,924	671,131
Nonoperating expense (income):				
Interest expense	73,073	18,476	187,323	49,993
Interest income	(5,524)	(5,665)	(27,945)	(14,107)
Other, net	474	(504)	725	1,758
	68,023	12,307	160,103	37,644
Income before income taxes	126,798	256,400	446,821	633,487
Provision for income taxes	57,882	25,970	67,212	67,980
Net income	\$68,916	\$230,430	\$379,609	\$565,507
Shares used to compute earnings per common share – basic	367,315	307,135	339,139	309,030
Shares used to compute earnings per common share – diluted	371,159	310,558	343,286	312,534
Basic earnings per common share	\$0.18	\$0.75	\$1.12	\$1.83
Diluted earnings per common share	\$0.18	\$0.74	\$1.10	\$1.81
Dividends declared and paid per share	\$0.45	\$0.42	\$1.32	\$1.24
(1) Includes stock-based compensation expense as follows:				
Cost of sales	\$4,375	\$1,844	\$8,885	\$5,922
Research and development	\$15,781	\$6,682	\$34,712	\$20,032
Selling, marketing, general and administrative	\$12,668	\$8,093	\$28,242	\$22,233

See accompanying notes.

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

	Three Months Ended		Nine Months Ended	
	July 29, 2017	July 30, 2016	July 29, 2017	July 30, 2016
Net income	\$68,916	\$230,430	\$379,609	\$565,507
Foreign currency translation adjustments	3,119	(2,859)	4,297	(2,923)
Change in fair value of available-for-sale securities (net of taxes of \$21, \$7, \$12 and \$49, respectively)	30	(307)	(426)	223
Change in fair value of derivative instruments designated as cash flow hedges (net of taxes of \$594, \$371, \$2,901 and \$767, respectively)	5,172	(3,545)	11,738	2,755
Changes in pension plans including prior service cost, transition obligation, net actuarial loss and foreign currency translation adjustments (net of taxes of \$108, \$50, \$313 and \$152 respectively)	(357)	880	(537)	1,240
Other comprehensive income	7,964	(5,831)	15,072	1,295
Comprehensive income	\$76,880	\$224,599	\$394,681	\$566,802

See accompanying notes.

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

	July 29, 2017	October 29, 2016
ASSETS		
Current Assets		
Cash and cash equivalents	\$908,569	\$921,132
Short-term investments	—	3,134,661
Accounts receivable	692,552	477,609
Inventories (1)	519,695	376,555
Prepaid income tax	5,383	6,405
Prepaid expenses and other current assets	62,444	58,501
Total current assets	2,188,643	4,974,863
Property, Plant and Equipment, at Cost		
Land and buildings	788,043	564,329
Machinery and equipment	2,335,354	1,994,115
Office equipment	65,024	58,785
Leasehold improvements	67,468	59,649
	3,255,889	2,676,878
Less accumulated depreciation and amortization	2,157,041	2,040,762
Net property, plant and equipment	1,098,848	636,116
Other Assets		
Deferred compensation plan investments	31,506	26,152
Other investments	28,958	21,937
Goodwill	12,241,815	1,679,116
Intangible assets, net	5,440,692	549,368
Deferred tax assets	30,200	36,005
Other assets	54,333	46,721
Total other assets	17,827,504	2,359,299
	\$21,114,995	\$7,970,278
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	\$228,127	\$171,439
Deferred income on shipments to distributors, net	449,663	351,538
Income taxes payable	22,301	4,100
Accrued liabilities	400,986	255,857
Total current liabilities	1,101,077	782,934
Non-current liabilities		
Long-term debt	8,199,230	1,732,177
Deferred income taxes	1,730,253	109,931
Deferred compensation plan liability	31,506	26,152
Other non-current liabilities	130,029	153,466
Total non-current liabilities	10,091,018	2,021,726
Commitments and contingencies		
Shareholders' Equity		
Preferred stock, \$1.00 par value, 471,934 shares authorized, none outstanding	—	—
	61,279	51,363

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Common stock, \$0.16 2/3 par value, 1,200,000,000 shares authorized, 367,667,745 shares outstanding (308,170,560 on October 29, 2016)

Capital in excess of par value	5,190,217	402,270
Retained earnings	4,730,146	4,785,799
Accumulated other comprehensive loss	(58,742)	(73,814)
Total shareholders' equity	9,922,900	5,165,618
	\$21,114,995	\$7,970,278

(1) Includes \$4,628 and \$2,486 related to stock-based compensation at July 29, 2017 and October 29, 2016, respectively.

See accompanying notes.

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

	Nine Months Ended	
	July 29, 2017	July 30, 2016
Cash flows from operating activities:		
Net income	\$379,609	\$565,507
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation	138,368	100,424
Amortization of intangibles	255,955	55,703
Cost of goods sold for inventory acquired	316,678	—
Stock-based compensation expense	71,839	48,187
Loss on extinguishment of debt	—	3,290
Excess tax benefit-stock options	(30,235)	(7,180)
Deferred income taxes	11,475	5,072
Other non-cash activity	(18,613)	2,371
Changes in operating assets and liabilities	(653,403)	20,537
Total adjustments	92,064	228,404
Net cash provided by operating activities	471,673	793,911
Cash flows from investing activities:		
Purchases of short-term available-for-sale investments	(705,485)	(5,855,930)
Maturities of short-term available-for-sale investments	3,362,791	5,010,942
Sales of short-term available-for-sale investments	577,187	290,071
Additions to property, plant and equipment	(138,883)	(86,173)
Payments for acquisitions, net of cash acquired	(9,687,463)	(2,203)
Changes in other assets	(13,125)	(18,048)
Net cash used for investing activities	(6,604,978)	(661,341)
Cash flows from financing activities:		
Payments of derivative instruments	—	(33,430)
Proceeds from debt	11,156,164	1,235,331
Payments of deferred financing fees	(5,625)	(22,208)
Proceeds from derivative instruments	3,904	—
Debt repayments	(4,700,000)	(378,156)
Dividend payments to shareholders	(435,262)	(383,537)
Repurchase of common stock	(35,935)	(368,649)
Proceeds from employee stock plans	105,244	39,342
Changes in other financing activities	(7)	(7,423)
Excess tax benefit-stock options	30,235	7,180
Net cash provided by financing activities	6,118,718	88,450
Effect of exchange rate changes on cash	2,024	(1,703)
Net (decrease) increase in cash and cash equivalents	(12,563)	219,317
Cash and cash equivalents at beginning of period	921,132	884,353
Cash and cash equivalents at end of period	\$908,569	\$1,103,670
See accompanying notes.		

ANALOG DEVICES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED JULY 29, 2017

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

Note 1 – Basis of Presentation

In the opinion of management, the information furnished in the accompanying condensed consolidated financial statements reflects all normal recurring adjustments that are necessary to fairly state the results for these interim periods and should be read in conjunction with Analog Devices, Inc.'s (the Company) Annual Report on Form 10-K for the fiscal year ended October 29, 2016 (fiscal 2016) and related notes. The results of operations for the interim periods shown in this report are not necessarily indicative of the results that may be expected for the fiscal year ending October 28, 2017 (fiscal 2017) or any future period.

Certain amounts reported in previous periods have been reclassified to conform to the fiscal 2017 presentation. Such reclassified amounts are immaterial.

The Company has a 52-53 week fiscal year that ends on the Saturday closest to the last day in October. Fiscal 2017 and fiscal 2016 are 52-week fiscal years.

Acquisition of Linear Technology Corporation

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

Note 2 – Revenue Recognition

Revenue from product sales to customers is generally recognized when title passes, which is upon shipment in the U.S. and in certain foreign countries. Revenue from product sales to customers in other foreign countries is recognized subsequent to product shipment. Title for shipments to these other foreign countries ordinarily passes within a week of shipment. Accordingly, the Company defers the revenue recognized relating to these other foreign countries until title has passed. For multiple element arrangements, the Company allocates arrangement consideration among the elements based on the relative fair values of those elements as determined using vendor-specific objective evidence or third-party evidence. The Company uses its best estimate of selling price to allocate arrangement consideration between the deliverables in cases where neither vendor-specific objective evidence nor third-party evidence is available. A reserve for sales returns and allowances for customers is recorded based on historical experience or specific identification of an event necessitating a reserve.

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

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

The Company defers revenue and the related cost of sales on shipments to U.S. distributors and certain international distributors until the distributors resell the products to their customers. As a result, the Company's revenue fully reflects end customer purchases and is not impacted by distributor inventory levels. Sales to certain of these distributors are made under

agreements that allow such distributors to receive price-adjustment credits, as discussed below, and to return qualifying products for credit, as determined by the Company, in order to reduce the amounts of slow-moving, discontinued or obsolete product from their inventory. These agreements limit such returns to a certain percentage of the value of the Company's shipments to that distributor during the prior quarter. In addition, such distributors are allowed to return unsold products if the Company terminates the relationship with the distributor.

Certain distributors are granted price-adjustment credits for sales to their customers when the distributor's standard cost (i.e., the Company's sales price to the distributor) does not provide the distributor with an appropriate margin on its sales to its customers. As distributors negotiate selling prices with their customers, the final sales price agreed upon with the customer will be influenced by many factors, including the particular product being sold, the quantity ordered, the particular customer, the geographic location of the distributor and the competitive landscape. As a result, the distributor may request and receive a price-adjustment credit from the Company to allow the distributor to earn an appropriate margin on the transaction.

Certain distributors are also granted price-adjustment credits in the event of a price decrease subsequent to the date the product was shipped and billed to the distributor. Generally, the Company will provide a credit equal to the difference between the price paid by the distributor (less any prior credits on such products) and the new price for the product multiplied by the quantity of the specific product in the distributor's inventory at the time of the price decrease.

Given the uncertainties associated with the levels of price-adjustment credits to be granted to certain distributors, the sales price to the distributor is not fixed or determinable until the distributor resells the products to their customers. Therefore, the Company defers revenue recognition from sales to certain distributors until the distributors have sold the products to their customers.

Generally, title to the inventory transfers to the distributor at the time of shipment or delivery to the distributor, and payment from the distributor is due in accordance with the Company's standard payment terms. These payment terms are not contingent upon the distributors' sale of the products to their customers. Upon title transfer to distributors, inventory is reduced for the cost of goods shipped, the margin (sales less cost of sales) is recorded as "deferred income on shipments to distributors, net" and an account receivable is recorded. Shipping costs are charged to cost of sales as incurred.

The deferred costs of sales to distributors have historically had very little risk of impairment due to the margins the Company earns on sales of its products and the relatively long life-cycle of the Company's products. Product returns from distributors that are ultimately scrapped have historically been immaterial. In addition, price protection and price-adjustment credits granted to distributors historically have not exceeded the margins the Company earns on sales of its products. The Company continuously monitors the level and nature of product returns and is in frequent contact with the distributors to ensure reserves are established for all known material issues.

As of July 29, 2017 and October 29, 2016, the Company had gross deferred revenue of \$586.1 million and \$432.3 million, respectively, and gross deferred cost of sales of \$136.4 million and \$80.8 million, respectively. As of July 29, 2017, approximately \$89.5 million of the deferred revenue and \$45.9 million of the deferred cost of sales related to the Acquisition.

The Company generally offers a twelve-month warranty for its products. The Company's warranty policy provides for replacement of defective products. Specific accruals are recorded for known product warranty issues. Product warranty expenses during each of the three- and nine-month periods ended July 29, 2017 and July 30, 2016 were not material.

Note 3 – Stock-Based Compensation

Stock-based compensation is measured at the grant date based on the grant-date fair value of the awards ultimately expected to vest, and is recognized as an expense on a straight-line basis over the vesting period, which is generally five years for stock options and three years for restricted stock units/awards. In addition to restricted stock units with a service condition, the Company grants restricted stock units with both a market condition and a service condition (market-based restricted stock units) and in the third quarter of fiscal 2017, granted restricted stock units with both a performance condition and a service condition. The number of shares of the Company's common stock to be issued upon vesting of market-based restricted stock units will range from 0% to 200% of the target amount, based on the

comparison of the Company's total shareholder return (TSR) to the median TSR of a specified peer group over a three-year period. TSR is a measure of stock price appreciation plus any dividends paid during the performance period. Determining the amount of stock-based compensation to be recorded for stock options and market-based restricted stock units requires the Company to develop estimates to calculate the grant-date fair value of awards. Linear Replacement Awards — In connection with the Acquisition, the Company issued equity awards, consisting of restricted stock awards and restricted stock units (replacement awards), to certain Linear employees in replacement of Linear equity awards. The replacement awards consisted of restricted stock awards and restricted stock units for approximately 2.8

million shares of the Company's common stock with a weighted average grant date fair value of \$82.20. The terms and intrinsic value of these replacement awards are substantially the same as the converted Linear awards. The fair value of the replacement awards associated with services rendered through the Acquisition Date was recognized as a component of the total preliminary estimated acquisition consideration, and the remaining fair value of the replacement awards associated with post-Acquisition services will be recognized as an expense on a straight-line basis over the remaining vesting period.

Modification of Awards — The Company has from time to time modified the vesting terms of its equity awards to employees and directors. The modifications made to the Company's equity awards in the first nine months of fiscal 2017 or fiscal 2016 did not result in significant incremental compensation costs, either individually or in the aggregate.

Grant-Date Fair Value — The Company uses the Black-Scholes valuation model to calculate the grant-date fair value of stock option awards and the Monte Carlo simulation model to calculate the grant-date fair value of market-based restricted stock units. The use of these valuation models requires the Company to make estimates and assumptions, such as expected volatility, expected term, risk-free interest rate, expected dividend yield and forfeiture rates. The grant-date fair value of restricted stock units with a service condition and those with both a service and performance condition represents the value of the Company's common stock on the date of grant, reduced by the present value of dividends expected to be paid on the Company's common stock prior to vesting.

Information pertaining to the Company's stock option awards and the related estimated weighted-average assumptions to calculate the fair value of stock options using the Black-Scholes valuation model granted during the three- and nine-month periods ended July 29, 2017 and July 30, 2016 are as follows:

	Three Months Ended		Nine Months Ended	
	July 29, 2017	July 30, 2016	July 29, 2017	July 30, 2016
Stock Options				
Options granted (in thousands)	98	23	1,474	1,738
Weighted-average exercise price	\$79.85	\$56.20	\$82.97	\$54.92
Weighted-average grant-date fair value	\$15.75	\$10.86	\$17.12	\$12.77
Assumptions:				
Weighted-average expected volatility	26.2	% 29.1	% 26.4	% 34.2
Weighted-average expected term (in years)	5.0	5.1	5.1	5.1
Weighted-average risk-free interest rate	1.8	% 1.2	% 2.1	% 1.4
Weighted-average expected dividend yield	2.3	% 3.0	% 2.2	% 3.1

The Company utilizes the Monte Carlo simulation valuation model to value market-based restricted stock units. The Monte Carlo simulation model utilizes multiple input variables that determine the probability of satisfying the market conditions stipulated in the award grant and calculates the fair market value for the market-based restricted stock units granted. The Monte Carlo simulation model also uses stock price volatility and other variables to estimate the probability of satisfying the market conditions, including the possibility that the market condition may not be satisfied, and the resulting fair value of the award. Information pertaining to the market-based restricted stock units and the related estimated assumptions used to calculate the fair value of the market-based restricted stock units granted during the nine-month periods ended July 29, 2017 and July 30, 2016 using the Monte Carlo simulation model are as follows:

	Nine Months Ended	Nine Months Ended
	July 29, 2017	July 30, 2016
Market-based Restricted Stock Units		
Units granted (in thousands)	59	102
Grant-date fair value	\$94.25	\$58.95
Assumptions:		
Historical stock price volatility	26.0	% 25.1

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Risk-free interest rate	1.6	%	1.1	%
Expected dividend yield	2.2	%	3.0	%

The Company did not grant market-based restricted stock units during the three-month periods ended July 29, 2017 or July 30, 2016.

Expected volatility — The Company is responsible for estimating volatility and has considered a number of factors, including third-party estimates. The Company currently believes that the exclusive use of implied volatility results in the best

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estimate of the grant-date fair value of employee stock options because it reflects the market's current expectations of future volatility. In evaluating the appropriateness of exclusively relying on implied volatility, the Company concluded that: (1) options in the Company's common stock are actively traded with sufficient volume on several exchanges; (2) the market prices of both the traded options and the underlying shares are measured at a similar point in time to each other and on a date close to the grant date of the employee share options; (3) the traded options have exercise prices that are both near-the-money and close to the exercise price of the employee share options; and (4) the remaining maturities of the traded options used to estimate volatility are at least one year. The Company utilizes historical volatility as an input variable of the Monte Carlo simulation to estimate the grant date fair value of market-based restricted stock units. The market performance measure of these awards is based upon the interaction of multiple peer companies. Given the Company is required to use consistent statistical properties in the Monte Carlo simulation and implied volatility is not available across the population, historical volatility must be used.

Expected term — The Company uses historical employee exercise and option expiration data to estimate the expected term assumption for the Black-Scholes grant-date valuation. The Company believes that this historical data is currently the best estimate of the expected term of a new option, and that generally its employees exhibit similar exercise behavior.

Risk-free interest rate — The yield on zero-coupon U.S. Treasury securities for a period that is commensurate with the expected term assumption is used as the risk-free interest rate.

Expected dividend yield — Expected dividend yield is calculated by annualizing the cash dividend declared by the Company's Board of Directors for the current quarter and dividing that result by the closing stock price on the date of grant. Until such time as the Company's Board of Directors declares a cash dividend for an amount that is different from the current quarter's cash dividend, the current dividend will be used in deriving this assumption. Cash dividends are not paid on options or restricted stock units. In connection with the Acquisition, the Company granted restricted stock awards to replace outstanding restricted stock awards of Linear employees. These restricted stock awards entitle recipients to voting and nonforfeitable dividend rights from the date of grant.

Stock-Based Compensation Expense

The amount of stock-based compensation expense recognized during a period is based on the value of the awards that are ultimately expected to vest. Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. The term "forfeitures" is distinct from "cancellations" or "expirations" and represents only the unvested portion of the surrendered stock-based award. Based on an analysis of its historical forfeitures, the Company has applied an annual forfeiture rate of 4.7% to all unvested stock-based awards as of July 29, 2017. This analysis will be re-evaluated quarterly and the forfeiture rate will be adjusted as necessary.

Ultimately, the actual expense recognized over the vesting period will only be for those options that vest.

Additional paid-in-capital (APIC) Pool

The APIC pool represents the excess tax benefits related to share-based compensation that are available to absorb future tax deficiencies. If the amount of future tax deficiencies is greater than the available APIC pool, the Company records the excess as income tax expense in its condensed consolidated statements of income. During the three- and nine-month periods ended July 29, 2017 and July 30, 2016, the Company had a sufficient APIC pool to cover any tax deficiencies recorded and as a result, these deficiencies did not affect its results of operations.

Stock-Based Compensation Activity

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

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Activity during the Three Months Ended July 29, 2017	Options Outstanding (in thousands)	Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Contractual Term in Years	Aggregate Intrinsic Value
Options outstanding at April 29, 2017	10,530	\$50.49		
Options granted	98	\$79.85		
Options exercised	(456)	\$39.42		
Options forfeited	(59)	\$59.68		
Options expired	(1)	\$48.94		
Options outstanding at July 29, 2017	10,112	\$51.22	6.3	\$288,944
Options exercisable at July 29, 2017	5,602	\$41.47	4.7	\$211,596
Options vested or expected to vest at July 29, 2017 (1)	9,725	\$50.59	6.2	\$283,617

In addition to the vested options, the Company expects a portion of the unvested options to vest at some point in (1)the future. The number of options expected to vest is calculated by applying an estimated forfeiture rate to the unvested options.

Activity during the Nine Months Ended July 29, 2017	Options Outstanding (in thousands)	Weighted-Average Exercise Price Per Share
Options outstanding at October 29, 2016	11,704	\$44.43
Options granted	1,474	\$82.97
Options exercised	(2,724)	\$38.81
Options forfeited	(335)	\$54.71
Options expired	(7)	\$34.10
Options outstanding at July 29, 2017	10,112	\$51.22

During the three- and nine-month periods ended July 29, 2017, the total intrinsic value of options exercised (i.e., the difference between the market price at exercise and the price paid by the employee to exercise the options) was \$19.9 million and \$109.0 million, respectively, and the total amount of proceeds received by the Company from the exercise of these options was \$18.0 million and \$105.2 million, respectively.

During the three- and nine-month periods ended July 30, 2016, the total intrinsic value of options exercised (i.e., the difference between the market price at exercise and the price paid by the employee to exercise the options) was \$13.0 million and \$26.9 million, respectively, and the total amount of proceeds received by the Company from the exercise of these options was \$16.6 million and \$39.3 million, respectively.

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

Activity during the Three Months Ended July 29, 2017	Restricted Stock Units/Awards Outstanding (in thousands)	Weighted-Average Grant-Date Fair Value Per Share
Restricted stock units/awards outstanding at April 29, 2017	5,313	\$70.59
Units/Awards granted	644	\$75.59
Restrictions lapsed	(311)	\$79.14
Forfeited	(55)	\$70.94
Restricted stock units/awards outstanding at July 29, 2017	5,591	\$70.69

Activity during the Nine Months Ended July 29, 2017	Restricted Stock Units/Awards Outstanding (in thousands)	Weighted-Average Grant-Date Fair Value Per Share
Restricted stock units/awards outstanding at October 29, 2016	2,690	\$50.11
Units/Awards granted (a)	4,307	\$79.55
Restrictions lapsed	(1,241)	\$58.44
Forfeited	(165)	\$58.71
Restricted stock units/awards outstanding at July 29, 2017	5,591	\$70.69

(a) includes replacement awards for 2.8 million shares of the Company's common stock that were granted to certain Linear employees to replace outstanding Linear equity awards.

As of July 29, 2017, there was \$369.8 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 1.9 years. The total grant-date fair value of shares that vested during the three- and nine-month periods ended July 29, 2017 was approximately \$28.3 million and \$95.2 million, respectively. The total grant-date fair value of shares that vested during the three- and nine-month periods ended July 30, 2016 was approximately \$1.7 million and \$59.0 million, respectively.

Note 4 – Accumulated Other Comprehensive Income (Loss)

The following table provides the changes in accumulated other comprehensive income (loss) (OCI) by component and the related tax effects during the first nine months of fiscal 2017.

	Foreign currency translation adjustment	Unrealized holding gains on available for sale securities	Unrealized holding (losses) on available for sale securities	Unrealized holding gains (losses) on derivatives	Pension plans	Total
October 29, 2016	\$(24,063)	\$ 800	\$ (281)	\$(18,884)	\$(31,386)	\$(73,814)
Other comprehensive income (loss) before reclassifications	4,297	(697)	283	7,582	(1,630)	9,835
Amounts reclassified out of other comprehensive income (loss)	—	—	—	7,057	1,406	8,463
Tax effects	—	(3)	(9)	(2,901)	(313)	(3,226)
Other comprehensive income (loss)	4,297	(700)	274	11,738	(537)	15,072
July 29, 2017	\$(19,766)	\$ 100	\$ (7)	\$(7,146)	\$(31,923)	\$(58,742)

The amounts reclassified out of accumulated other comprehensive income (loss) with presentation location during each period were as follows:

Comprehensive Income Component	Three Months Ended		Nine Months Ended		Location
	July 29, 2017	July 30, 2016	July 29, 2017	July 30, 2016	
Unrealized holding losses (gains) on derivatives					
Currency forwards	\$ (106)	\$ 46	\$ 2,842	\$ 1,672	Cost of sales
	(354)	93	1,154	783	Research and development
	(195)	(577)	1,600	(231)	Selling, marketing, general and administrative
Interest rate derivatives	468	562	1,461	1,407	Interest expense
	(187)	124	7,057	3,631	Total before tax
	(80)	(141)	(1,469)	(807)	Tax
	\$(267)	\$(17)	\$5,588	\$2,824	Net of tax
Amortization of pension components					
Transition obligation	\$3	\$4	\$9	\$12	(a)
Prior service credit	(2)	—	(6)	—	(a)
Actuarial losses	482	168	1,403	511	(a)
	483	172	1,406	523	Total before tax
	(109)	(50)	(313)	(152)	Tax
	\$374	\$122	\$1,093	\$371	Net of tax
Total amounts reclassified out of accumulated other comprehensive income (loss), net of tax	\$107	\$105	\$6,681	\$3,195	

a) The amortization of pension components is included in the computation of net periodic pension cost. For further information see Note 13, Retirement Plans, contained in Item 8 of the Annual Report on Form 10-K for the fiscal year ended October 29, 2016.

The Company estimates \$5.2 million of forward foreign currency derivative instruments included in OCI will be reclassified into earnings within the next twelve months. There was no ineffectiveness related to designated forward foreign currency derivative instruments in the three- and nine-month periods ended July 29, 2017 and July 30, 2016. Gross unrealized gains and losses on available-for-sale securities at July 29, 2017 and October 29, 2016 were as follows:

	July 29, October 29,	
	2017	2016
Unrealized gains on available-for-sale securities	\$ 149	\$ 846
Unrealized losses on available-for-sale securities	(11)	(294)
Net unrealized gains on available-for-sale securities	\$ 138	\$ 552

As of July 29, 2017, the Company held 19 investment securities, 7 of which were in an unrealized loss position with gross unrealized losses of \$0.01 million and an aggregate fair value of \$194.7 million. As of October 29, 2016, the Company held 100 investment securities, 25 of which were in an unrealized loss position with gross unrealized losses of \$0.3 million and an aggregate fair value of \$729.6 million. These unrealized losses were primarily related to corporate obligations that earn lower interest rates than current market rates. None of these investments have been in a loss position for more than twelve months. As the Company does not intend to sell these investments and it is unlikely that the Company will be required to sell the investments before recovery of their amortized basis, which will be at maturity, the Company does not consider those investments to be other-than-temporarily impaired at July 29, 2017 and October 29, 2016.

Realized gains or losses on investments are determined based on the specific identification basis and are recognized in nonoperating expense (income). There were no material net realized gains or losses from the sales of

available-for-sale investments during any of the fiscal periods presented.

Note 5 – Earnings Per Share

Basic earnings per share is computed based only on the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed using the weighted average number of common shares outstanding during the period, plus the dilutive effect of potential future issuances of common stock relating to stock option programs and other potentially dilutive securities using the treasury stock method. In calculating diluted earnings per share, the dilutive effect of stock options and restricted stock units is computed using the average market price for the respective period. In addition, the assumed proceeds under the treasury stock method include the average unrecognized compensation expense of stock options that are in-the-money and restricted stock units. This results in the “assumed” buyback of additional shares, thereby reducing the dilutive impact of in-the-money stock options. Potential shares related to certain of the Company’s outstanding stock options and restricted stock units were excluded because they were anti-dilutive. Those potential shares, determined based on the weighted average exercise prices during the respective periods, could be dilutive in the future. In connection with the Acquisition, the Company granted restricted stock awards to replace outstanding restricted stock awards of Linear employees. These restricted stock awards entitle recipients to voting and nonforfeitable dividend rights from the date of grant. These unvested stock-based compensation awards are considered participating securities and the two-class method is used for purposes of calculating earnings per share. Under the two-class method, a portion of net income is allocated to these participating securities and therefore is excluded from the calculation of earnings per share allocated to common stock, as shown in the table below.

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

	Three Months		Nine Months	
	Ended		Ended	
	July 29,	July 30,	July 29,	July 30,
	2017	2016	2017	2016
Net Income	\$68,916	\$230,430		