

MAXIM INTEGRATED PRODUCTS INC
Form 10-Q
April 27, 2012

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 March 31, 2012
- 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 number 1-34192

MAXIM INTEGRATED PRODUCTS, INC.
(Exact name of Registrant as Specified in its Charter)
Delaware
(State or Other Jurisdiction of Incorporation or Organization)

94-2896096
(I.R.S. Employer I. D. No.)

120 San Gabriel Drive
Sunnyvale, California 94086
(Address of Principal Executive Offices including Zip Code)

(408) 737-7600
(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file 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 or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer <input checked="" type="checkbox"/>	Accelerated filer <input type="checkbox"/>	Non-accelerated filer <input type="checkbox"/>	Smaller reporting company <input type="checkbox"/>
		(Do not check if a smaller reporting company)	

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
(Check one):
YES NO

As of April 20, 2012 there were 292,204,009 shares of Common Stock, par value \$.001 per share, of the registrant outstanding.

MAXIM INTEGRATED PRODUCTS, INC.
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Part I. FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

MAXIM INTEGRATED PRODUCTS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	March 31, 2012 (in thousands)	June 25, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	\$860,551	\$962,541
Short-term investments	75,405	50,346
Total cash, cash equivalents and short-term investments	935,956	1,012,887
Accounts receivable, net	296,255	297,632
Inventories	220,153	237,928
Deferred tax assets	105,298	113,427
Other current assets	79,584	65,978
Total current assets	1,637,246	1,727,852
Property, plant and equipment, net	1,361,300	1,308,850
Intangible assets, net	222,354	204,263
Goodwill	423,073	265,125
Other assets	26,264	21,653
TOTAL ASSETS	\$3,670,237	\$3,527,743
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$132,906	\$110,153
Income taxes payable	21,807	3,912
Accrued salary and related expenses	181,943	215,627
Accrued expenses	72,242	47,767
Deferred income on shipments to distributors	28,729	36,881
Total current liabilities	437,627	414,340
Long term debt	308,700	300,000
Income taxes payable	192,842	96,099
Deferred tax liabilities	205,727	183,715
Other liabilities	22,143	22,771
Total liabilities	1,167,039	1,016,925
Commitments and contingencies (Note 11)		
Stockholders' equity:		
Common stock and capital in excess of par value	9,125	296
Retained earnings	2,507,298	2,524,790
Accumulated other comprehensive loss	(13,225)	(14,268)
Total stockholders' equity	2,503,198	2,510,818
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	\$3,670,237	\$3,527,743

See accompanying Notes to Condensed Consolidated Financial Statements.

MAXIM INTEGRATED PRODUCTS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	Three Months Ended		Nine Months Ended	
	March 31, 2012	March 26, 2011	March 31, 2012	March 26, 2011
	(in thousands, except per share data)			
Net revenues	\$571,212	\$606,775	\$1,798,573	\$1,845,850
Cost of goods sold	235,782	234,125	719,710	706,711
Gross margin	335,430	372,650	1,078,863	1,139,139
Operating expenses:				
Research and development	136,075	130,955	418,372	388,735
Selling, general and administrative	78,011	73,617	241,293	217,957
Intangible asset amortization	4,029	4,092	12,688	14,552
Impairment of long-lived asset	7,712	—	7,712	—
Severance and restructuring expenses	228	16	6,767	1,670
Other operating (income) expenses, net	(2,511)	(25)	(6,745)	21,108
Total operating expenses	223,544	208,655	680,087	644,022
Operating income	111,886	163,995	398,776	495,117
Interest and other expense, net	(230)	(1,570)	(1,956)	(9,346)
Income before provision for income taxes	111,656	162,425	396,820	485,771
Provision for income taxes	88,948	26,149	152,536	122,355
Income from continuing operations	22,708	136,276	244,284	363,416
Income from discontinued operations, net of tax	31,809	—	31,809	—
Net income	\$54,517	\$136,276	\$276,093	\$363,416
Earnings per share: basic				
From continuing operations	\$0.08	\$0.46	\$0.83	\$1.22
From discontinued operations	0.11	—	0.11	—
Basic	\$0.19	\$0.46	\$0.94	\$1.22
Earnings per share: diluted				
From continuing operations	\$0.07	\$0.45	\$0.81	\$1.20
From discontinued operations	0.11	—	0.11	—
Diluted	\$0.18	\$0.45	\$0.92	\$1.20
Shares used in the calculation of earnings per share:				
Basic	292,276	296,511	292,829	297,090
Diluted	300,221	304,515	300,113	302,381
Dividends paid per share	\$0.22	\$0.21	\$0.66	\$0.63

See accompanying Notes to Condensed Consolidated Financial Statements.

MAXIM INTEGRATED PRODUCTS, INC.
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 (Unaudited)

	Nine Months Ended	
	March 31, 2012	March 26, 2011
	(in thousands)	
Cash flows from operating activities:		
Net income	\$276,093	\$363,416
Adjustments to reconcile net income to net cash provided by operating activities:		
Stock-based compensation	68,977	72,889
Depreciation and amortization	157,542	155,046
Deferred taxes	29,535	119,600
In process research and development written-off	1,600	—
Tax shortfall related to stock-based compensation plans	1,804	27,735
Impairment of long-lived assets	7,712	—
Excess tax benefit related to stock-based compensation	(12,235	) (8,077
(Gain) loss on sale of property, plant and equipment	(6,236	) 14,743
Gain on sale of discontinued operations	(45,372) —
Gain from sale of investments in privately-held companies	(1,811) —
Changes in assets and liabilities:		
Accounts receivable	1,944	36,297
Inventories	21,658	(26,461
Other current assets	(11,123	) 37,224
Accounts payable	13,713	3,875
Income taxes payable	114,638	(47,856
Deferred income on shipments to distributors	(8,152	) 9,792
Accrued liabilities - litigation settlement	—	(173,000
All other accrued liabilities	(43,659	) 29,957
Net cash provided by operating activities	566,628	615,180
Cash flows from investing activities:		
Purchase of property, plant and equipment	(187,738	) (127,190
Proceeds from sale of property, plant and equipment	15,483	25,329
Acquisitions	(166,287	) (73,107
Proceeds from sale of discontinued operations	56,607	—
Purchases of available-for-sale securities	(25,108	) (49,787
Purchases of privately-held companies	(1,980) —
Proceeds from sale of investments in privately-held companies	3,225	—
Net cash used in investing activities	(305,798	) (224,755
Cash flows from financing activities:		
Excess tax benefit related to stock-based compensation	12,235	8,077
Mortgage liability repayment	—	(3,237
Repayment of notes payable	(20,406	) (1,422
Net issuance of restricted stock units	(22,661	) (21,046
Proceeds from stock options exercised	36,559	16,130
Issuance of employee stock purchase plan	14,906	12,556

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Repurchase of common stock	(190,130) (172,004)
Dividends paid	(193,323) (187,068)
Net cash used in financing activities	(362,820) (348,014)
Net (decrease) increase in cash and cash equivalents	(101,990	) 42,411	
Cash and cash equivalents:			
Beginning of period	962,541	826,512	
End of period	\$860,551	\$868,923	
Supplemental disclosures of cash flow information:			
Cash paid (refunded), net during the period for income taxes	\$31,153	\$(19,847)
Cash paid for interest	5,653	5,089	
Noncash investing and financing activities:			
Accounts payable related to property, plant and equipment purchases	\$23,701	\$11,511	
See accompanying Notes to Condensed Consolidated Financial Statements.			

MAXIM INTEGRATED PRODUCTS, INC.
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

NOTE 1: BASIS OF PRESENTATION

The accompanying unaudited condensed interim consolidated financial statements of Maxim Integrated Products, Inc. and all of its majority-owned subsidiaries (collectively, the "Company" or "Maxim") included herein have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"). Certain information and footnote disclosures normally included in consolidated financial statements prepared in accordance with generally accepted accounting principles of the United States of America ("GAAP") have been condensed or omitted pursuant to applicable rules and regulations. In the opinion of management, all adjustments considered necessary for fair presentation have been included. The year-end condensed balance sheet data were derived from audited consolidated financial statements but do not include all disclosures required by GAAP. The results of operations for the nine months ended March 31, 2012 are not necessarily indicative of the results to be expected for the entire year. These condensed interim consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in the Annual Report on Form 10-K for the fiscal year ended June 25, 2011.

The Company has a 52-to-53-week fiscal year that ends on the last Saturday in June. Accordingly, every fifth or sixth fiscal year will be a 53-week fiscal year. Fiscal year 2012 is a 53-week fiscal year. The extra week was included in our second fiscal quarter ended December 31, 2011.

NOTE 2: RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In September 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2011-08 relating to Intangibles-Goodwill and Other (Topic 350)-Testing Goodwill for Impairment (ASU 2011-08). The ASU allows an entity to first perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value. If it is concluded that it is more likely than not, an entity is required to perform the currently prescribed two-step goodwill impairment test. Otherwise, the two-step goodwill impairment test is not required. ASU 2011-08 is effective for Maxim in fiscal 2013 and earlier adoption is permitted.

In June 2011, the FASB issued ASU No. 2011-05 relating to Comprehensive Income (Topic 220)-Presentation of Comprehensive Income (ASU 2011-05), which requires an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The ASU is effective for Maxim in fiscal 2013 and should be applied retrospectively.

NOTE 3: BALANCE SHEET COMPONENTS

Accounts receivables, net consist of:

	March 31, 2012	June 25, 2011
Accounts Receivables:	(in thousands)	
Accounts receivable	\$ 312,092	\$ 315,329
Returns and allowances	(15,837) (17,697
	\$ 296,255	\$ 297,632

Inventories consist of:

March 31, 2012	June 25, 2011
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Inventories:	(in thousands)	
Raw materials	\$18,085	\$18,419
Work-in-process	140,723	162,245
Finished goods	61,345	57,264
	\$220,153	\$237,928

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Property, plant and equipment, net consist of:

	March 31, 2012 (in thousands)	June 25, 2011
Property, plant and equipment:		
Land	\$79,345	\$86,257
Buildings and building improvements	331,700	313,642
Machinery and equipment	2,100,558	1,978,827
	2,511,603	2,378,726
Less: accumulated depreciation and amortization	(1,150,303)	(1,069,876)
	\$1,361,300	\$1,308,850

NOTE 4: FAIR VALUE MEASUREMENTS

The FASB established a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Three levels of inputs that may be used to measure fair value as follows:

Level 1 - Quoted (unadjusted) prices in active markets for identical assets or liabilities.

The Company's Level 1 assets consist of money market funds.

Level 2 - Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability.

The Company's Level 2 assets and liabilities consist of certificates of deposit, government agency securities and foreign currency forward contracts.

Level 3 - Unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of the assets or liabilities.

The Company's Level 3 liabilities consist of contingent consideration related to certain acquisitions. For details on inputs used in measuring fair value, please refer to Note 13: Acquisitions to the Condensed Consolidated Financial Statements.

Assets and liabilities measured at fair value on a recurring basis were as follows:

	As of March 31, 2012 Fair Value				As of June 25, 2011 Fair Value			
	Measurements Using			Total Balance	Measurements Using			Total Balance
	Level 1	Level 2	Level 3		Level 1	Level 2	Level 3	
	(in thousands)							
Assets								
Money market funds (1)	\$627,671	\$—	\$—	\$627,671	\$603,180	\$—	\$—	\$603,180
Certificates of deposit (1)	—	6,179	—	6,179	—	3,457	—	3,457
Government agency securities (2)	—	75,405	—	75,405	—	50,346	—	50,346

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Foreign currency forward contracts (3)	—	430	—	430	—	326	—	326
Total Assets	\$627,671	\$82,014	\$—	\$709,685	\$603,180	\$54,129	\$—	\$657,309
Liabilities								
Foreign currency forward contracts (4)	\$—	\$291	\$—	\$291	\$—	\$309	\$—	\$309
Contingent Consideration (4)	—	—	18,324	18,324	—	—	8,800	8,800
Total Liabilities	\$—	\$291	\$18,324	\$18,615	\$—	\$309	\$8,800	\$9,109

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- (1) Included in Cash and cash equivalents in the accompanying Condensed Consolidated Balance Sheets.
- (2) Included in Short-term investments in the accompanying Condensed Consolidated Balance Sheets.
- (3) Included in Other current assets in the Condensed Consolidated Balance Sheets.
- (4) Included in Accrued expenses in the Condensed Consolidated Balance Sheets.

The tables below present reconciliations for liabilities measured and recorded at fair value on a recurring basis using significant unobservable inputs (Level 3) for the nine months ended March 31, 2012 and for the twelve months ended June 25, 2011:

Fair Value Measured and Recorded Using Significant Unobservable Inputs (Level 3)

	March 31, 2012	June 25, 2011
Contingent Consideration	(in thousands)	
Beginning balance	\$ 8,800	\$ —
Additions	11,354	8,800
Payments	(1,830) —
Ending balance	\$ 18,324	\$ 8,800
Changes in unrealized gains or losses included in earnings related to liabilities still held as of period end	\$ —	\$ —

The valuation of contingent consideration was based on a probability weighted earnouts model which relied primarily on estimates of milestone achievements and discount rates applicable for the period expected payout. The most significant unobservable input used in the determination of estimated fair value of contingent consideration is the estimates on the likelihood of milestone achievements, which directly correlates to the fair value recognized in the Condensed Consolidated Balance Sheets. .

The fair value of this liability is estimated on a quarterly basis by Management using a collaborative effort of the Company's engineering and accounting departments. The determination of the milestone achievement is performed by the Company's engineering department and reviewed by the accounting department. Potential valuation adjustments are made as the progress toward achieving milestones becomes determinable with the impact of such adjustments being recorded through interest and other expense, net.

As of March 31, 2012 and June 25, 2011, there were no transfers in or out of level 3 from other levels in the fair value hierarchy.

Assets measured at fair value on a non-recurring basis were as follows:

As of March 31, 2012, long-lived assets held for sale with a carrying amount of \$11.3 million were written down to their fair value, less cost to sell of \$3.6 million, resulting in an impairment loss of \$7.7 million, which was included in earnings for the period. The impairment charge was measured using level 3 inputs. The fair value of the equipment was determined mainly after consideration of quoted market prices of similar equipment adjusted for equipment specifications and condition in addition to the current market demand and size. Please refer to Note 15: Impairment of long-lived assets to the Condensed Consolidated Financial Statements.

As of June 25, 2011, none of the Company's assets and liabilities were measured at fair value on a non-recurring basis.

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NOTE 5: FINANCIAL INSTRUMENTS

Short-term investments

Fair values were as follows: