

MAXIM INTEGRATED PRODUCTS INC  
Form 10-Q  
November 05, 2009

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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 September 26, 2009

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)

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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  Accelerated filer  Non-accelerated filer  Smaller reporting company   
x (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 October 23, 2009 there were 305,233,410 shares of Common Stock, par value \$.001 per share, of the registrant outstanding.

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Note: PDF provided as a courtesy

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)

	<u>September 26, 2009</u>	<u>June 27, 2009</u>
	(in thousands)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 836,029	\$ 709,348
Short-term investments	101,551	204,055
	<hr/>	<hr/>
Total cash, cash equivalents and short-term investments	937,580	913,403
	<hr/>	<hr/>
Accounts receivable, net	228,843	207,807
Inventories	192,277	217,847
Deferred tax assets	194,373	211,879
Income tax refund receivable	1,260	13,072
Other current assets	24,078	20,943
	<hr/>	<hr/>
Total current assets	1,578,411	1,584,951
Property, plant and equipment, net	1,352,857	1,366,052
Other assets	130,039	130,772
	<hr/>	<hr/>
<b>TOTAL ASSETS</b>	<b>\$ 3,061,307</b>	<b>\$ 3,081,775</b>
	<hr/>	<hr/>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 57,966	\$ 70,087
Income taxes payable	26,333	2,140
Accrued salary and related expenses	125,821	141,334
Accrued expenses	40,059	38,455
Deferred income on shipments to distributors	18,764	16,760
	<hr/>	<hr/>
Total current liabilities	268,943	268,776
Other liabilities	26,210	26,398
Income taxes payable	126,055	124,863
Deferred tax liabilities	67,760	67,273
	<hr/>	<hr/>
Total liabilities	488,968	487,310
	<hr/>	<hr/>
Commitments and contingencies (Note 11)		
Stockholders' equity:		
Common stock and capital in excess of par value	324	306
Additional paid-in capital	19,175	21,205
Retained earnings	2,561,185	2,580,610
Accumulated other comprehensive loss	(8,345)	(7,656)
	<hr/>	<hr/>
Total stockholders' equity	2,572,339	2,594,465
	<hr/>	<hr/>

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<b>TOTAL LIABILITIES &amp; STOCKHOLDERS' EQUITY</b>	<b>\$ 3,061,307</b>	<b>\$ 3,081,775</b>
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See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended	
	September 26, 2009	September 27, 2008
	(in thousands)	
Net revenues	\$ 449,246	\$ 501,204
Cost of goods sold (1)	197,619	209,654
	251,627	291,550
Gross margin		
Operating expenses:		
Research and development (1)	116,693	138,915
Selling, general and administrative (1)	54,990	40,243
Impairment of long-lived assets	8,291	7,343
Severance and restructuring expenses (recoveries)	(1,561)	4,106
Other operating expenses, net	(16,885)	7,358
	161,528	197,965
Total operating expenses		
Operating income	90,099	93,585
Interest income and other, net	1,901	9,101
	92,000	102,686
Income before provision for income taxes		
Provision for income taxes	50,048	35,119
	\$ 41,952	\$ 67,567
Net income		
Earnings per share:		
Basic	\$ 0.14	\$ 0.21
Diluted	\$ 0.13	\$ 0.21
Shares used in the calculation of earnings per share:		
Basic	306,276	320,553
Diluted	312,162	323,815
Dividends declared per share	\$ 0.20	\$ 0.20
(1) Includes stock-based compensation expenses as follows:		
Cost of goods sold	\$ 5,461	\$ 11,920
Research and development	16,741	19,419
Selling, general and administrative	4,263	6,222
	\$ 26,465	\$ 37,561

See accompanying Notes to Condensed Consolidated Financial Statements.



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

	Three Months Ended	
	September 26, 2009	September 27, 2008
	(in thousands)	
Cash flows from operating activities:		
Net income	\$ 41,952	\$ 67,567
Adjustments to reconcile net income to net cash provided by operating activities:		
Stock-based compensation	26,465	37,561
Depreciation and amortization	36,496	46,781
Deferred taxes	17,809	(924)
Tax benefit (shortfall) related to stock-based compensation	(4,347)	1,062
Excess tax benefit related to stock-based compensation	(1,983)	(52)
Impairment of long-lived assets	8,291	7,343
Loss from sale of property, plant and equipment	699	700
Loss from sale of equity investments	149	-
Changes in assets and liabilities:		
Accounts receivable	(21,036)	3,460
Inventories	24,525	6,429
Other current assets	10,595	11,146
Accounts payable	(14,891)	15,471
Income taxes payable	24,490	21,503
Deferred income on shipments to distributors	2,004	(138)
Accrued liabilities-goodwill payments above settlement date fair value	(453)	(8,948)
All other accrued liabilities	(12,250)	(51,897)
Net cash provided by operating activities	138,515	157,064
Cash flows from investing activities:		
Purchase of property, plant and equipment	(26,463)	(37,995)
Proceeds from sale of property, plant, and equipment	340	322
Other non-current assets	953	(3,206)
Acquisition	(4,000)	-
Purchases of available-for-sale securities	-	(1,370)
Proceeds from sales/maturities of available-for-sale securities	100,233	2,438
Net cash provided by (used in) investing activities	71,063	(39,811)
Cash flows from financing activities:		
Excess tax benefit related to stock-based compensation	1,983	52
Mortgage liability	(10)	(10)
Goodwill payment on expiring options	-	(4,997)
Repurchase of options	(209)	-
Cash settlement of vested restricted stock units	-	(1,910)
Payouts under the RSU loan program	-	(8,202)
Proceeds from derivative litigation settlement	2,460	-
Issuance of common stock	(8,175)	-
Repurchase of common stock	(17,569)	-
Dividends paid	(61,377)	(64,111)
Net cash used in financing activities	(82,897)	(79,178)
Net increase in cash and cash equivalents	126,681	38,075
Cash and cash equivalents:		
Beginning of period	709,348	1,013,119



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End of period	\$ 836,029	\$ 1,051,194
	<b>_____</b>	<b>_____</b>
Supplemental disclosures of cash flow information:		
Cash paid, net during the period for income taxes	\$ 281	\$ 128
	<b>_____</b>	<b>_____</b>
Noncash investing and financing activities:		
Accounts payable related to property, plant and equipment purchases	\$ 18,482	\$ 12,386
	<b>_____</b>	<b>_____</b>

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 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 financial statements but do not include all disclosures required by GAAP. The results of operations for the three months ended September 26, 2009 are not necessarily indicative of the results to be expected for the entire year. These condensed 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 27, 2009.

We have evaluated subsequent events through the date that the financial statements were issued on November 4, 2009.

The Company has a 52-to-53-week fiscal year that ends on the last Saturday in June. Accordingly, every sixth or seventh fiscal year will be a 53-week fiscal year. Fiscal year 2010 is a 52-week fiscal year.

NOTE 2: RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In February 2008, the Financial Accounting Standards Board (the "FASB") issued new accounting guidance related to all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The adoption of the new guidance did not have a material effect on the Company's consolidated financial condition and results of operations.

In December 2007, the FASB issued new accounting guidance related to the accounting and reporting for noncontrolling interests in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. The guidance improves the relevance, comparability and transparency of financial statements and eliminates diversity in practice that currently exists in accounting for transactions between an entity and noncontrolling interests. This guidance is effective for annual periods beginning after December 15, 2008. Earlier adoption is prohibited. The adoption of the new guidance did not have a material effect on the Company's consolidated financial position, results of operations and cash flows.

In December 2007, the FASB issued new accounting guidance related to business combinations. The new accounting guidance requires the acquiring entity in a business combination to recognize all (and only) the assets acquired and liabilities assumed in the transaction, establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed, and requires the acquirer to disclose to investors and other users all of the information they need to evaluate and understand the nature and financial effect of the business combination. This guidance is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The Company adopted the new accounting guidance during the first quarter of fiscal year 2010. See Note 15 "Acquisitions".

During the first quarter of fiscal year 2010, we adopted three related sets of accounting guidance as issued by the FASB. The accounting guidance sets forth (i) rules related to determining the fair value of financial assets and financial liabilities when the activity levels have significantly decreased in relation to the normal market, (ii) guidance

related to the determination of other-than-temporary impairments to include the intent and ability of the holder as an indicator in the determination of whether an other-than-temporary impairment exists and (iii) interim disclosure requirements for the fair value of financial instruments. The adoption of the three sets of accounting guidance did not have a material impact on our consolidated financial statements.

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

During the first quarter of fiscal year 2010, we adopted new accounting guidance for the determination of the useful life of intangible assets as issued by the FASB. The new guidance amends the factors that should be considered in developing the renewal or extension assumptions used to determine the useful life of a recognized intangible asset. The new guidance also requires expanded disclosure regarding the determination of intangible asset useful lives. The adoption of this accounting guidance did not have a material impact on our consolidated financial statements.

During the first quarter of fiscal year 2010, we adopted the new Accounting Standards Codification (ASC) as issued by the FASB. The ASC has become the source of authoritative GAAP recognized by the FASB to be applied by nongovernmental entities. The ASC is not intended to change or alter existing GAAP. The adoption of the ASC did not have a material impact on our consolidated financial statements.

**NOTE 3: BALANCE SHEET COMPONENTS**

The components of inventories consist of:

	September 26, 2009	June 27, 2009
	(In thousands)	
<b>Inventories:</b>		
Raw materials	\$ 14,017	\$ 14,235
Work-in-process	140,878	166,970
Finished goods	37,382	36,642
	\$ 192,277	\$ 217,847

The components of other assets consist of:

	September 26, 2009	June 27, 2009
	(In thousands)	
<b>Other Assets:</b>		
Deferred tax assets	\$ 5,914	\$ 5,914
Intangible assets, net (Note 16)	73,205	76,295
Goodwill (Note 16)	29,596	26,710
Other	21,324	21,853
	\$ 130,039	\$ 130,772

**NOTE 4: FAIR VALUE MEASUREMENTS**

The FASB defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining fair value, we consider the principal or most advantageous market in which we would transact, and we consider assumptions that market participants would use when pricing the asset or liability, such as inherent risk, transfer restrictions, and risk of non-performance.

Our financial instruments are measured and recorded at fair value, except for cost method investments. Our cost method investments are measured at fair value quarterly; however, they are only recorded at fair value when an impairment charge is recognized. Our non-financial assets, such as goodwill, intangible assets, and property, plant and equipment, are measured at fair value when there is an indicator of impairment and recorded at fair value only when an impairment charge is recognized.

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:

Level 1

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

The Company's Level 1 assets and liabilities consist of U.S. Treasury securities and money market funds.

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

## 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 uses observable market prices for comparable instruments to value its derivative instruments.

The Company's Level 2 assets and liabilities consist of bank certificates of deposit and foreign currency forward contracts.

## Level 3

- Unobservable inputs to the valuation methodology that are supported by little or no market activity and that are significant to the measurement of the fair value of the assets or liabilities. Level 3 assets and liabilities include those whose fair value measurements are determined using pricing models, discounted cash flow methodologies or similar valuation techniques, as well as significant management judgment or estimation.

The Company's Level 3 assets include assets held for sale.

Assets and liabilities measured at fair value on a recurring basis as of September 26, 2009 were as follows:

	Fair Value Measurements Using			
	Balance as of September 26, 2009	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	
		(in thousands)		
Assets:				
Money market funds (1)	\$ 786,722	\$ 784,604	\$ 2,118	\$ -
U.S. Treasury Notes (2)	101,551	101,551	-	-
Foreign currency derivative contracts, (net)	(278)	-	(278)	-
Total assets measured at fair value	\$ 887,995	\$ 886,155	\$ 1,840	\$ -

(1) Included in cash and cash equivalents in the accompanying Condensed Consolidated Balance Sheets as of September 26, 2009

(2) Included in short-term investments in the accompanying Condensed Consolidated Balance Sheets as of September 26, 2009

Assets and liabilities measured at fair value on a non-recurring basis as of September 26, 2009 were as follows:

Balance as of September 26, 2009	Fair Value Measurements Using	
	Quoted Prices in Active Markets for	