MAXIM INTEGRATED PRODUCTS INC
Form 10-Q
October 21, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q
(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 24, 2016
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	94-2896096
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer I. D. No.)

160 Rio Robles
San Jose, California 95134
(Address of Principal Executive Offices including Zip Code)

(408) 601-1000
(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 [x] 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 [x] 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 [x]	Accelerated filer [ ]	Non-accelerated filer [ ] (Do not check if a smaller reporting company)	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 [x]

As of October 14, 2016 there were 283,278,391 shares of Common Stock, par value $.001 per share, of the registrant outstanding.

MAXIM INTEGRATED PRODUCTS, INC.
INDEX

2

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

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

	September 24, 2016	June 25, 2016
	(in thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents	$2,092,073	$2,105,229
Short-term investments	175,441	125,439
Total cash, cash equivalents and short-term investments	2,267,514	2,230,668
Accounts receivable, net of allowances of $28,945 in Q1'17 and $32,108 in Q4'16	253,518	256,531
Inventories	223,484	227,929
Other current assets	89,398	91,920
Total current assets	2,833,914	2,807,048
Property, plant and equipment, net	678,447	692,551
Intangible assets, net	131,496	146,540
Goodwill	491,015	490,648
Other assets	54,890	84,100
Assets held for sale	2,854	13,729
TOTAL ASSETS	$4,192,616	$4,234,616
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$83,589	$82,535
Income taxes payable	3,138	21,153
Accrued salary and related expenses	111,126	166,698
Accrued expenses	48,572	50,521
Deferred revenue on shipments to distributors	35,754	38,779
Current portion of debt	249,788	249,717
Total current liabilities	531,967	609,403
Long-term debt	990,685	990,090
Income taxes payable	497,360	480,645
Other liabilities	37,368	46,664
Total liabilities	2,057,380	2,126,802
Commitments and contingencies (Note 11)		
Stockholders' equity:		
Common stock and capital in excess of par value	284	284
Retained earnings	2,141,326	2,121,749
Accumulated other comprehensive loss	(6,374)	(14,219)
Total stockholders' equity	2,135,236	2,107,814

TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	$4,192,616	$4,234,616

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended	
	September 24, 2016	September 26, 2015
	(in thousands, except per share data)	
Net revenues	$561,396	$ 562,510
Cost of goods sold	215,664	276,159
Gross margin	345,732	286,351
Operating expenses:		
Research and development	112,746	121,392
Selling, general and administrative	70,852	71,995
Intangible asset amortization	2,443	3,591
Impairment of long-lived assets	6,134	157,697
Severance and restructuring expenses	9,965	7,126
Other operating expenses (income), net	(28,481)	315
Total operating expenses	173,659	362,116
Operating income (loss)	172,073	(75,765)
Interest and other income (expense), net	(6,870)	(6,402)
Income (loss) before provision for income taxes	165,203	(82,167)
Income tax provision (benefit)	27,589	(10,024)
Net income (loss)	$137,614	$ (72,143)
Earnings (loss) per share:		
Basic	$0.49	$ (0.25)
Diluted	$0.48	$ (0.25)
Shares used in the calculation of earnings (loss) per share:		
Basic	283,633	284,588
Diluted	288,574	284,588
Dividends declared and paid per share	$0.33	$ 0.30

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended	
	September 24, 2016	September 26, 2015
	(in thousands)	
Net income (loss)	$137,614	$ (72,143)
Other comprehensive income (loss), net of tax:		
Change in net unrealized gains and losses on available-for-sale securities, net of tax benefit (expense) of $(1,633) and $0, respectively	2,612	76
Change in net unrealized gains and losses on cash flow hedges, net of tax benefit (expense) of $(122) and $192, respectively	386	(614)
Change in net unrealized gains and losses on post-retirement benefits, net of tax benefit (expense) of $(2,805) and $(80), respectively	4,847	172
Other comprehensive income (loss), net	7,845	(366)
Total comprehensive income (loss)	$145,459	$ (72,509)

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended	
	September 24, 2016	September 26, 2015
	(in thousands)	
Cash flows from operating activities:		
Net income (loss)	$137,614	$(72,143)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Stock-based compensation	17,120	16,963
Depreciation and amortization	43,485	102,053
Deferred taxes	14,895	(53,111)
Loss (gain) from sale of property, plant and equipment	652	(1,346)
Loss (gain) on sale of business	(26,620)	—
Tax benefit related to stock-based compensation	—	1,193
Impairment of long-lived assets	6,134	157,697
Excess tax benefit from stock-based compensation	—	(2,249)
Changes in assets and liabilities:		
Accounts receivable	3,013	(3,627)
Inventories	2,517	(2,167)
Other current assets	(12,099)	4,796
Accounts payable	(858)	(9,776)
Income taxes payable	110	34,127
Deferred revenue on shipments to distributors	(3,025)	4,764
Accrued salary and related expenses	(55,572)	(60,718)
All other accrued liabilities	(3,964)	883
Net cash provided by (used in) operating activities	123,402	117,339
Cash flows from investing activities:		
Purchase of property, plant and equipment	(14,310)	(15,821)
Proceeds from sale of property, plant and equipment	205	606
Proceeds from sale of available-for-sale securities	24,540	—
Proceeds from maturity of available-for-sale securities	25,000	—
Proceeds from sale of business	42,199	—
Purchases of available-for-sale securities	(75,224)	(25,055)
Purchases of privately-held companies' securities	(2,337)	(1,000)
Net cash provided by (used in) investing activities	73	(41,270)
Cash flows from financing activities:		
Excess tax benefit from stock-based compensation	—	2,249
Net issuance of restricted stock units	(5,206)	(4,822)
Proceeds from stock options exercised	19,911	8,970
Repurchase of common stock	(57,709)	(39,697)
Dividends paid	(93,627)	(85,387)
Net cash provided by (used in) financing activities	(136,631)	(118,687)
Net increase (decrease) in cash and cash equivalents	(13,156)	(42,618)
Cash and cash equivalents:		
Beginning of period	2,105,229	1,550,965
End of period	$2,092,073	$1,508,347

See accompanying Notes to Condensed Consolidated Financial Statements.

6

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

	Three Months Ended	
	September 24, 2016	September 26, 2015
	(in thousands)	
Supplemental disclosures of cash flow information:		
Cash paid net during the period for income taxes	$33,760	$ 7,021
Cash paid for interest	$8,438	$ 8,438
Noncash financing and investing activities:		
Accounts payable related to property, plant and equipment purchases	$4,722	$ 7,127
Remaining balance of common stock valued at $25.9 million received as consideration in sale of inventory, property, plant and equipment for the Company's wafer manufacturing facility in San Antonio, Texas	$25,922	—

See accompanying Notes to Condensed Consolidated Financial Statements.

7

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

NOTE 1: BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements of Maxim Integrated Products, Inc. and all of its majority-owned subsidiaries (collectively, the “Company” or “Maxim Integrated”) 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 of a normal recurring nature which were considered necessary for fair presentation have been included. The year-end condensed consolidated 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 three months ended September 24, 2016 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 Company's Annual Report on Form 10-K for the fiscal year ended June 25, 2016.

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 2016 was a 52-week fiscal year and fiscal year 2017 will also be a 52-week fiscal year.

NOTE 2: RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

(i) New Accounting Updates Recently Adopted

In March 2016, the FASB issued ASU 2016-09, Improvements to Employee Share-Based Payment Accounting, which is intended to simplify several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The Company early adopted ASU 2016-09 at the beginning of the first quarter of fiscal year 2017. As a result of the adoption, in the first quarter of fiscal year 2017 the Company recorded a $1.4 million cumulative-effect adjustment to retained earnings for the recognition of excess tax benefits generated by the settlement of share-based awards in prior periods and a discrete income tax benefit of $3.3 million to the income tax provision for excess tax benefits generated by the settlement, in the first quarter of fiscal year 2017, of share-based awards. The adoption also resulted in an increase in cash flow from operating activities and a decrease in cash flow from financing activities of $3.3 million in the first quarter of fiscal year 2017. The adoption was on a prospective basis and therefore had no impact on prior periods.

(ii) Recent Accounting Updates Not Yet Effective

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606). This standard provides a single set of guidelines for revenue recognition to be used across all industries and requires additional disclosures. ASU No. 2014-09 is effective for the Company in the first quarter of fiscal year 2019 using either of two methods: (i) retrospective to each prior reporting period presented with the option to elect certain practical expedients as defined within ASU No. 2014-09; or (ii) retrospective with the cumulative effect of initially applying ASU No. 2014-09 recognized at the date of initial application and providing certain additional disclosures as defined per ASU No. 2014-09. Early adoption in the first quarter of fiscal year 2018 is permitted. The Company is currently evaluating the potential impact of this standard on its financial position and results of operations, as well as its selected transition method.

In July 2015, the FASB issued ASU No. 2015-11, Inventory (Topic 330): Simplifying the Measurement of Inventory, which changes the measurement principle for inventory from the lower of cost or market to the lower of cost and net realizable value. ASU No. 2015-11 defines net realizable value as estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The new guidance must be applied on a prospective basis and is effective for the Company in the first quarter of fiscal year 2018, with early adoption permitted. The Company does not believe the implementation of this standard will result in a material impact to its consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities, which provides guidance for the recognition, measurement, presentation, and disclosure of financial assets and liabilities. This ASU will be effective for the Company beginning in the first quarter of fiscal year 2019. The application of this ASU will be by means of a cumulative-effect adjustment to the balance sheet. The amendments related to equity securities without readily determinable fair values (including disclosure requirements) will be applied prospectively to equity investments that exist as of the date of adoption. The Company is evaluating the effects of the adoption of this ASU to its financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which supersedes the lease accounting requirements in Topic 840. ASU 2016-02 requires a dual approach for lessee accounting under which a lessee would account for leases as finance leases or operating leases. Both finance leases and operating leases will result in the lessee recognizing a right-of use asset and a corresponding lease liability. For finance leases, the lessee would recognize interest expense and amortization of the right-of-use asset, and for operating leases, the lessee would recognize a straight-line total lease expense. The guidance also requires qualitative and specific quantitative disclosures to supplement the amounts recorded in the financial statements so that users can understand more about the nature of an entity's leasing activities, including significant judgments and changes in judgments. This guidance is effective beginning in the first quarter of fiscal year 2020 on a modified retrospective approach. The Company is currently evaluating the potential impact of this standard on its financial statements.

NOTE 3: BALANCE SHEET COMPONENTS

Inventories consist of:

	September 24, 2016	June 25, 2016
Inventories:	(in thousands)	
Raw materials	$7,164	$6,505
Work-in-process	143,872	148,762
Finished goods	72,448	72,662
	$223,484	$227,929

Property, plant and equipment, net consists of:

	September 24, 2016	June 25, 2016
Property, plant and equipment, net:	(in thousands)	
Land	$18,952	$18,952
Buildings and building improvements	245,836	240,507
Machinery and equipment	1,370,245	1,370,322
	1,635,033	1,629,781
Less: accumulated depreciation	(956,586)	(937,230)
	$678,447	$692,551

Accrued salary and related expenses consist of:

	September 24, 2016	June 25, 2016
Accrued salary and related expenses:	(in thousands)	
Accrued vacation	$30,040	$30,753
Accrued bonus	29,303	90,638
Accrued severance and post-employment benefits	14,397	14,230
Accrued salaries	12,085	14,320
Other	25,301	16,757
	$111,126	$166,698

9

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 are 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 U.S. treasury bills, certificates of deposit and foreign currency forward contracts that are valued using quoted market prices or are determined using a yield curve model based on current market rates. As a result, the Company has classified these investments as Level 2 in the fair value hierarchy. Also within Level 2 assets and liabilities are shares of common stock received as consideration for the sale of the Company's wafer manufacturing facility in San Antonio, Texas, which have been valued based on quoted prices in the active market for identical assets, adjusted for estimated timing of sale.

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 did not hold any Level 3 assets or liabilities as of September 24, 2016 and June 25, 2016.

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

	As of September 24, 2016				As of June 25, 2016			
	Fair Value Measurements Using			Total	Fair Value Measurements Using			Total
	Level 1	Level 2	Level 3	Balance	Level 1	Level 2	Level 3	Balance
	(in thousands)							
Assets								
Money market funds (1)	$1,626,233	$—	$ —	$1,626,233	$1,658,321	$—	$ —	$1,658,321
U.S. treasury bills (2)	—	175,441	—	175,441	—	125,439	—	125,439
Foreign currency forward contracts (3)	—	450	—	450	—	695	—	695
Investment in common stock (3)	—	25,922	—	25,922	—	40,000	—	40,000
Certificates of deposit (1)	—	70	—	70	—	70	—	70
Total Assets	$1,626,233	$201,883	$ —	$1,828,116	$1,658,321	$166,204	$ —	$1,824,525
Liabilities								
Foreign currency forward contracts (4)	$—	$555	$ —	$555	$—	$1,327	$ —	$1,327
Total Liabilities	$—	$555	$ —	$555	$—	$1,327	$ —	$1,327

(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 accompanying Condensed Consolidated Balance Sheets.
(4) Included in Accrued expenses in the accompanying Condensed Consolidated Balance Sheets.

During the three months ended September 24, 2016 and June 25, 2016, there were no transfers in or out of Level 3 from other levels in the fair value hierarchy.

There were no assets or liabilities measured at fair value on a non-recurring basis as of September 24, 2016 and June 25, 2016 other than impairments of Long-Lived assets. For details, please refer to Note 14: “Impairment of long-lived assets”.

NOTE 5: FINANCIAL INSTRUMENTS

Short-term investments
Fair values were as follows:

	September 24, 2016				June 25, 2016			
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Estimated Fair Value	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Estimated Fair Value
	(in thousands)							
Available-for-sale investments								
U.S. Treasury bills	$175,157	$ 284	$ —	$175,441	$124,950	$ 489	$ —	$125,439
Total available-for-sale investments	$175,157	$ 284	$ —	$175,441	$124,950	$ 489	$ —	$125,439

In the three months ended September 24, 2016 and the year ended June 25, 2016, the Company did not recognize any impairment charges on short-term investments. The U.S. Treasury bills have maturity dates between December 15, 2017 and December 15, 2018.

Securities received as consideration for sale of assets

During the third quarter of fiscal 2016, the Company received approximately $40.0 million in common shares of Tower Semiconductor Ltd. as consideration for the sale of the Company's semiconductor wafer manufacturing facility in San Antonio, Texas. During the three months ended September 24, 2016, the Company sold some of these common shares for gross proceeds of approximately $24.5 million. The remaining common shares were valued at approximately $25.9 million as of September 24, 2016, with the increase in value of $5.4 million treated as an unrealized gain. The Company is required to return to Tower Semiconductor the first $6.0 million in gain realized upon the sale of such shares.

Derivative instruments and hedging activities

The Company incurs expenditures denominated in non-U.S. currencies, primarily the Philippine Peso and the Thai Baht associated with the Company's manufacturing activities in the Philippines and Thailand, respectively, and European Union Euro and South Korean Won expenditures for sales offices and research and development activities undertaken outside of the U.S.

The Company has established a program that primarily utilizes foreign currency forward contracts to offset the risks associated with the effects of certain foreign currency exposures. The Company does not use these foreign currency forward contracts for trading purposes.

Derivatives designated as cash flow hedging instruments

The Company designates certain forward contracts as hedging instruments pursuant to Accounting Standards Codification (“ASC”) No. 815-Derivatives and Hedging (“ASC 815”). As of September 24, 2016 and June 25, 2016, the notional amounts of the forward contracts the Company held to purchase international currencies were $55.4 million and $68.0 million, respectively, and the notional amounts of forward contracts the Company held to sell international currencies were $2.3 million and $2.6 million, respectively.

Derivatives not designated as hedging instruments

As of