

MAXIM INTEGRATED PRODUCTS INC
Form 10-Q
October 20, 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 September 23, 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 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 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 (Do not check if a smaller reporting company) Smaller reporting company Emerging growth company

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 revisited 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).

(Check one):

YES NO

As of October 13, 2017, there were 281,486,597 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)

	September 23, 2017	June 24, 2017
	(in thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$1,577,160	\$2,246,121
Short-term investments	1,196,827	498,718
Total cash, cash equivalents and short-term investments	2,773,987	2,744,839
Accounts receivable, net of allowances of \$107,916 at Q1'18 and \$46,575 at Q4'17	233,215	256,454
Inventories	245,347	247,242
Other current assets	55,033	57,059
Total current assets	3,307,582	3,305,594
Property, plant and equipment, net	595,622	606,581
Intangible assets, net	79,850	90,867
Goodwill	491,015	491,015
Other assets	59,246	72,974
Assets held for sale	2,691	3,202
TOTAL ASSETS	\$4,536,006	\$4,570,233
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$66,915	\$77,373
Income taxes payable	3,688	3,688
Accrued salary and related expenses	103,194	145,299
Accrued expenses	43,121	37,663
Deferred revenue on shipments to distributors	16,994	14,974
Total current liabilities	233,912	278,997
Long-term debt	1,488,406	1,487,678
Income taxes payable	573,831	557,498
Deferred tax liabilities	1,436	1,514
Other liabilities	40,677	41,852
Total liabilities	2,338,262	2,367,539
Commitments and contingencies (Note 11)		
Stockholders' equity:		
Common stock and capital in excess of par value	283	283
Retained earnings	2,207,052	2,212,301
Accumulated other comprehensive loss	(9,591)	(9,890)
Total stockholders' equity	2,197,744	2,202,694

TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	\$4,536,006	\$4,570,233
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See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended	
	September 25, 2017	September 24, 2016
	(in thousands, except per share data)	
Net revenues	\$575,676	\$ 561,396
Cost of goods sold	201,845	215,664
Gross margin	373,831	345,732
Operating expenses:		
Research and development	108,601	112,746
Selling, general and administrative	73,681	70,852
Intangible asset amortization	1,752	2,443
Impairment of long-lived assets	42	6,134
Severance and restructuring expenses	5,433	9,965
Other operating expenses (income), net	(844)	(28,481)
Total operating expenses	188,665	173,659
Operating income (loss)	185,166	172,073
Interest and other income (expense), net	(4,214)	(6,870)
Income (loss) before provision for income taxes	180,952	165,203
Income tax provision (benefit)	26,419	27,589
Net income (loss)	\$154,533	\$ 137,614
Earnings (loss) per share:		
Basic	\$0.55	\$ 0.49
Diluted	\$0.54	\$ 0.48
Shares used in the calculation of earnings (loss) per share:		
Basic	282,170	283,633
Diluted	286,437	288,574
Dividends declared and paid per share	\$0.36	\$ 0.33

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended	
	September 30, 2017	September 24, 2016
	(in thousands)	
Net income (loss)	\$ 154,533	\$ 137,614
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 \$0 and \$(1,633), respectively	(98) 2,612
Change in net unrealized gains and losses on cash flow hedges, net of tax benefit (expense) of \$(120) and \$(122), respectively	353	386
Change in net unrealized gains and losses on post-retirement benefits, net of tax benefit (expense) of \$(22) and \$(2,805), respectively	44	4,847
Other comprehensive income (loss), net	299	7,845
Total comprehensive income (loss)	\$ 154,832	\$ 145,459

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended	
	September 23, 2017	September 24, 2016
	(in thousands)	
Cash flows from operating activities:		
Net income (loss)	\$ 154,533	\$ 137,614
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Stock-based compensation	17,287	17,120
Depreciation and amortization	36,754	43,485
Deferred taxes	12,115	14,895
Loss (gain) from sale of property, plant and equipment	61	652
Loss (gain) on sale of business	—	(26,620)
Impairment of long-lived assets	42	6,134
Changes in assets and liabilities:		
Accounts receivable	23,239	3,013
Inventories	1,835	2,517
Other current assets	1,488	(12,099)
Accounts payable	(9,979)	(858)
Income taxes payable	16,333	110
Deferred margin on shipments to distributors	2,020	(3,025)
Accrued salary and related expenses	(42,105)	(55,572)
All other accrued liabilities	6,082	(3,964)
Net cash provided by (used in) operating activities	219,705	123,402
Cash flows from investing activities:		
Purchase of property, plant and equipment	(14,321)	(14,310)
Proceeds from sale of property, plant and equipment	1,473	205
Proceeds from sale of available-for-sale securities	18,101	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	(716,304)	(75,224)
Purchases of privately-held companies' securities	(606)	(2,337)
Net cash provided by (used in) investing activities	(711,657)	73
Cash flows from financing activities:		
Net issuance of restricted stock units	(5,416)	(5,206)
Proceeds from stock options exercised	5,160	19,911
Repurchase of common stock	(75,291)	(57,709)
Dividends paid	(101,462)	(93,627)
Net cash provided by (used in) financing activities	(177,009)	(136,631)
Net increase (decrease) in cash and cash equivalents	(668,961)	(13,156)
Cash and cash equivalents:		
Beginning of period	\$ 2,246,121	\$ 2,105,229
End of period	\$ 1,577,160	\$ 2,092,073
Supplemental disclosures of cash flow information:		
Cash paid, net, during the period for income taxes	\$ 502	\$ 33,760
Cash paid for interest	\$ 8,438	\$ 8,438

Noncash financing and investing activities:

Accounts payable related to property, plant and equipment purchases	\$3,375	\$4,722
Common stock valued at \$40.0 million received as consideration in sale of inventory, property, plant and equipment for the Company's wafer manufacturing facility in San Antonio, Texas; this common stock was sold during the fiscal year ended June 24, 2017.	—	25,922

See accompanying Notes to Condensed Consolidated Financial Statements.

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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 23, 2017 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 24, 2017.

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 2017 was a 52-week fiscal year and fiscal year 2018 is a 53-week fiscal year.

NOTE 2: RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

(i) New Accounting Updates Recently Adopted

In August 2017, the FASB issued ASU 2017-12, Derivatives and Hedging (Topic 815), which is intended to improve accounting for hedging activities by expanding and refining hedge accounting for both nonfinancial and financial risk components and aligning the recognition and presentation of the effects of the hedging instrument and the hedged item in the financial statements. The Company early-adopted ASU 2017-12 during the first quarter of fiscal year 2018. There was no material change to the Company's consolidated financial statements as a result of this adoption for the first quarter of fiscal year 2018. 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. The Company presently expects to select the modified retrospective transition method. As the new standard will supersede substantially all existing revenue guidance affecting the Company under GAAP, it could impact the Company's financial statements and disclosures, operational processes including internal controls, and business systems. During fiscal 2018, the Company plans to complete the transition of all revenue from distributors from sell-through to the sell-in basis of accounting. While we are continuing to assess all potential impacts, the Company does not expect the new guidance to materially impact the timing of recognition of future revenue from distributors.

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 currently evaluating the potential impact of this standard on its consolidated 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 consolidated financial statements.

In October 2016, the FASB issued ASU No. 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory. ASU No. 2016-16 requires that entities recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs instead of when the asset is sold. ASU No. 2016-16 is effective beginning in the first quarter of fiscal 2019, 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 February 2017, the FASB issued ASU No. 2017-06, Plan Accounting: Defined Benefit Pension Plans (Topic 960); Defined Contribution Pension Plans (Topic 962); Health and Welfare Benefit Plans (Topic 965): Employee Benefit Plan Master Trust Reporting. This update provides guidance for reporting by an employee benefit plan for its interest in a master trust. The guidance is effective beginning in the first quarter of fiscal year 2020 on a retrospective basis, with early application permitted. The Company is currently evaluating the potential impact of this standard on its consolidated financial statements.

In March 2017, the FASB issued ASU 2017-07, Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost, which requires employers that offer or maintain defined benefit plans to disaggregate the service component from the other components of net benefit cost and provides guidance on presentation of the service component and the other components of net benefit cost in the statement of operations. The new standard is effective beginning in the third quarter of fiscal year 2018. The Company is currently evaluating the potential impact of this standard on its consolidated financial statements.

In May 2017, the FASB issued ASU 2017-09, Compensation-Stock Compensation (Topic 718), Scope of Modification Accounting. The amendments in this standard provide guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. The amendments in this standard are effective beginning in the first quarter of fiscal year 2019, with early adoption permitted, including adoption in any interim period for which financial statements have not yet been issued. The Company is currently evaluating the potential impact of this standard on its consolidated financial statements.

NOTE 3: BALANCE SHEET COMPONENTS

Inventories consist of:

	September 24, 2017	June 24, 2017
Inventories:	(in thousands)	
Raw materials	\$13,218	\$11,779
Work-in-process	154,313	151,614
Finished goods	77,816	83,849
	\$245,347	\$247,242

Property, plant and equipment, net consists of:

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	September 24, 2017	June 24, 2017
Property, plant and equipment, net:	(in thousands)	
Land	\$17,731	\$18,952
Buildings and building improvements	252,032	254,513
Machinery and equipment	1,298,688	1,286,031
	1,568,451	1,559,496