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)

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

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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	June 25, 2011
	(in thousands)	
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.

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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

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

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	June 25, 2011
Property, plant and equipment:	(in thousands)	
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 Measurements Using			Total	As of June 25, 2011 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)	$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

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.

NOTE 5: FINANCIAL INSTRUMENTS

Short-term investments
Fair values were as follows:

	March 31, 2012				June 25, 2011			
	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								
Government agency securities	$74,994	$411	$—	$75,405	$49,826	$520	$—	$50,346
Total available-for-sale investments	$74,994	$411	$—	$75,405	$49,826	$520	$—	$50,346

In the nine months ended March 31, 2012 and the year ended June 25, 2011, Maxim did not recognize any impairment charges on short-term investments.
The government agency securities have maturity dates between February 26, 2013 and December 18, 2013.
Derivative instruments and hedging activities

Foreign Currency Risk

The Company generates revenues in various global markets based on orders obtained in non-U.S. currencies, primarily the Japanese Yen, the Euro and the British Pound. Maxim incurs expenditures denominated in non-U.S. currencies, principally the Philippine Pesos and Thai Baht associated with the Company's manufacturing activities in the Philippines and Thailand, respectively, and expenditures for sales offices and research and development activities undertaken outside of the U.S. Maxim is exposed to fluctuations in foreign currency exchange rates primarily on orders and accounts receivable from sales in these foreign currencies and cash flows for expenditures in these foreign currencies. Maxim has established risk management strategies designed to reduce the impact of volatility of future cash flows caused by changes in the exchange rate for these currencies. These strategies reduce, but do not entirely eliminate, the impact of currency exchange rates movements. Maxim does not use derivative financial instruments for speculative or trading purposes. The Company routinely hedges its exposures to certain foreign currencies with various financial institutions in an effort to minimize the impact of certain currency exchange rate fluctuations. If a financial counter party to any of the Company's hedging arrangements experiences financial difficulties or is otherwise unable to honor the terms of the foreign currency hedge, the Company may experience financial losses.

For derivative instruments that are designated and qualify as cash flow hedges under Accounting Standards Codification ("ASC") No. 815-Derivatives and Hedging, the effective portion of the gain or loss on the derivative is reported as a component of accumulated other comprehensive loss and reclassified into earnings into the same financial statement line as the item being hedged, and in the same period or periods during which the hedged transaction affects earnings. Gains and losses on the derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in interest and other expense, net.

For derivative instruments that are not designated as hedging instruments under ASC No. 815, gains and losses are recognized in interest and other expense, net. All derivatives are foreign currency forward contracts to hedge certain foreign currency denominated assets or liabilities. The gains and losses on these derivatives largely offset the changes in the fair value of the assets or liabilities being hedged.

Fair Value of Derivative Instruments in the Condensed Consolidated Balance Sheets
Maxim estimates the fair value of derivatives primarily based on pricing models using current market rates and records all derivatives on the balance sheet at fair value. The gross notional and the recorded fair value of derivative financial instruments in the Condensed Consolidated Balance Sheets were as follows:

	As of March 31, 2012			As of June 25, 2011		
	Gross Notional(1)	Other Current Assets	Accrued Expenses	Gross Notional (1)	Other Current Assets	Accrued Expenses
	(in thousands)					
Derivatives designated as hedging instruments						
Cash flow hedges:						
Foreign exchange contracts	$37,509	$430	$155	$35,629	$53	$287
Derivatives not designated as hedging instruments						
Foreign exchange contracts	23,266	—	136	26,342	273	22
Total derivatives	$60,775	$430	$291	$61,971	$326	$309

(1) Represents the face amounts of contracts that were outstanding as of March 31, 2012 and June 25, 2011, as applicable.

Derivatives designated as hedging instruments

The following table provides the balances and changes in the accumulated other comprehensive income (loss) related to derivative instruments during the nine months ended March 31, 2012 and the year ended June 25, 2011.

	March 31, 2012	June 25, 2011
	(in thousands)	
Beginning balance	$(234)	$(235)
Loss reclassified to income	870	514
Loss recorded in other comprehensive loss	(361)	(513)
Ending balance	$275	$(234)

Maxim expects to reclassify an estimated net accumulated other comprehensive gain of $0.2 million, net of taxes, to earnings in the next twelve months along with the earnings effects of the related forecasted transactions in association with cash flow hedges.

The before-tax effect of cash flow derivative instruments for the three and nine months ended March 31, 2012 and March 26, 2011 was as follows:

	Gain (Loss) Reclassified from Accumulated OCI into Income (Effective portion)				
		Three Months Ended		Nine Months Ended	
	Location	March 31, 2012	March 26, 2011	March 31, 2012	March 26, 2011
		(in thousands)			
Cash Flow hedges:					
Foreign exchange contracts	Net Revenues	$(52)	$(71)	$193	$(1,366)
Foreign exchange contracts	Cost of goods sold	44	(54)	171	539
Foreign exchange contracts	Operating Expense	(266)	—	(41)	—
Total cash flow hedges		$(274)	$(125)	$323	$(827)

The before-tax effect of derivative instruments not designated as hedging instruments on the Condensed Consolidated Statements of Income for the three and nine months ended March 31, 2012 and March 26, 2011 was as follows:

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	Gain (Loss) Recognized in Income on Derivative Instrument				
		Three Months Ended		Nine Months Ended	
	Location	March 31, 2012	March 26, 2011	March 31, 2012	March 26, 2011
		(in thousands)			
Foreign exchange contracts	Interest and other expense, net	$(199)	$(1,050)	$779	$(1,888)
Total		$(199)	$(1,050)	$779	$(1,888)

Volume of Derivative Activity

Total net U.S. Dollar notional amounts for foreign currency forward contracts, presented by net currency purchase (sell), are as follows:

In United States Dollars	March 31, 2012	June 25, 2011
	(in thousands)	
Euro	$(1,870)	$1,542
Japanese Yen	737	(5,156)
British Pound	(2,361)	(10,928)
Philippine Peso	13,799	17,140
Thai Baht	3,938	3,523
Total	$14,243	$6,121

Long-term debt

The following table summarizes the Company's long-term debt:

	March 31, 2012	June 25, 2011
	(in thousands)	
3.45% fixed rate notes due June 2013	$300,000	$300,000
SensorDynamics Debt (Denominated in Euro)		
Term fixed rate notes (2.0%-2.5%) due March 2013 to September 2015	6,120	—
Amortizing fixed rate notes (1.5%-2.75%) due up to June 2014	2,215	—
Amortizing floating rate notes (EURIBOR plus 1.5%) due up to June 2014	2,310	—
Total	310,645	300,000
Less: Current portion (1)	(1,945)	—
Total long-term debt	$308,700	$300,000

(1) Current portion of long-term debt is included under accrued expenses in the Condensed Consolidated Balance Sheets.

On June 17, 2010, the Company completed a public offering of $300 million aggregate principal amount of the Company's 3.45% senior unsecured notes due on June 14, 2013, with an effective interest rate of 3.49%. Interest on the Notes is payable semi-annually in arrears on June 14 and December 14 of each year. The Notes are governed by base and supplemental indentures dated June 10, 2010 and June 17, 2010, respectively, between the Company and Wells Fargo Bank, National Association, as trustee.

In conjunction with the SensorDynamics acquisition as discussed in Note 13: Acquisitions to the Condensed Consolidated Financial Statements, Maxim acquired certain fixed and floating rate notes as detailed in the table above.

The Company accounts for the Notes based on their amortized cost. The discount and expenses are being amortized to Interest and other expense, net over the life of the Notes. Interest expense associated with the Notes was $3.0 million and $2.8 million during the three months ended March 31, 2012 and March 26, 2011, respectively. Interest expense associated with the Notes was $10.1 million and $8.4 million during the nine months ended March 31, 2012 and March 26, 2011, respectively. The interest expense is recorded in Interest and other expense, net in the Condensed Consolidated Statements of Income.

The estimated fair value of Maxim's debt was approximately $319 million at March 31, 2012. The estimated fair value of the debt is based primarily on quoted market prices.

As of March 31, 2012, the Company had the capacity to issue an unspecified amount of additional debt securities, common stock, preferred stock, warrants, rights and units under its 2010 Shelf Registration Statement.

Credit Facility

On October 13, 2011, the Company entered into a $250 million senior unsecured revolving credit facility with certain institutional lenders that expires on October 13, 2016. The Company agreed to pay the lenders a facility fee at a rate per annum that varies based on the Company's index debt rating. Any advances under the credit agreement will accrue interest at a base rate plus a margin based on the Company's debt index rating. The credit agreement requires the Company to comply with certain covenants, including a requirement that the Company maintain a ratio of debt to EBITDA (earnings before interest, taxes, depreciation, and amortization) of not more than 3 to 1 and a minimum interest coverage ratio (EBITDA divided by interest expense) greater than 3.5 to 1. As of March 31, 2012, the Company had not borrowed any amounts from this credit facility.

Other Financial Instruments
For the balance of Maxim's financial instruments, cash equivalents, accounts receivable, accounts payable and other accrued liabilities, the carrying amounts approximate fair value due to their short maturities.

NOTE 6: STOCK-BASED COMPENSATION

The following table shows total stock-based compensation expense by type of award, and the resulting tax effect, included in the Condensed Consolidated Statements of Income for the three and nine months ended March 31, 2012 and March 26, 2011:

Stock-based compensation expense by type of award

	Three Months Ended		Nine Months Ended	
	March 31, 2012	March 26, 2011	March 31, 2012	March 26, 2011
	(in thousands)			
Stock options	$4,048	$4,023	$12,757	$16,053
Restricted stock units	15,492	15,030	49,524	50,573
Employee stock purchase plan	2,498	2,175	6,696	6,263
Pre-tax stock-based compensation expense	22,038	21,228	68,977	72,889
Less: income tax effect	4,061	5,039	15,329	19,332
Net stock-based compensation expense	$17,977	$16,189	$53,648	$53,557

The following table shows pre-tax stock-based compensation expense by income statement classification:

	Three Months Ended		Nine Months Ended	
	March 31, 2012	March 26, 2011	March 31, 2012	March 26, 2011
	(in thousands)			
Cost of goods sold	$3,099	$3,336	$10,048	$10,979
Research and development	11,547	11,743	37,717	41,764

Selling, general and administrative	7,392	6,149	21,212	20,146
	$ 22,038	$ 21,228	$ 68,977	$ 72,889

Fair Value

The fair value of options granted to employees under the Company's 1996 Stock Incentive Plan and rights to acquire common stock under the Company's 2008 Employee Stock Purchase Plan (the "ESPP") is estimated on the date of grant using the Black-Scholes option valuation model. The fair value of Restricted Stock Units ("RSUs") is estimated using 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.

Expected volatilities are based on the historical volatilities from the Company's traded common stock over a period equal to the expected term. The Company is utilizing the simplified method to estimate expected holding periods. The risk-free interest rate is based on the U.S. Treasury yield. The Company determines the dividend yield by dividing the annualized dividends per share by the prior quarter's average stock price. The result is analyzed by the Company to decide whether it represents expected future dividend yield. The Company also estimates forfeitures at the time of grant and makes revisions to forfeitures on a quarterly basis.

The fair value of share-based awards granted to employees has been estimated at the date of grant using the Black-Scholes option valuation model and the following weighted-average assumptions:

	Stock Option Plan							
	Three Months Ended				Nine Months Ended			
	March 31, 2012		March 26, 2011		March 31, 2012		March 26, 2011	
Expected holding period (in years)	4.8		5.0		5.1		5.2	
Risk-free interest rate	0.8	%	2.1	%	1.3	%	1.7	%
Expected stock price volatility	38.6	%	36.4	%	36.8	%	36.9	%
Dividend yield	3.5	%	3.9	%	3.2	%	4.3	%

	ESPP							
	Three Months Ended				Nine Months Ended			
	March 31, 2012		March 26, 2011		March 31, 2012		March 26, 2011	
Expected holding period (in years)	0.5		0.5		0.5		0.5	
Risk-free interest rate	0.1	%	0.2	%	0.1	%	0.2	%
Expected stock price volatility	32.2	%	31.4	%	32.2	%	31.4	%
Dividend yield	3.8	%	4.9	%	3.8	%	4.9	%

The weighted-average fair value of stock options granted was $6.53 and $6.25 per share for the three months ended March 31, 2012 and March 26, 2011, respectively. The weighted-average fair value of RSUs granted was $25.38 and $24.39 per share for the three months ended March 31, 2012 and March 26, 2011, respectively.
The weighted-average fair value of stock options granted was $5.85 and $3.85 per share for the nine months ended March 31, 2012 and March 26, 2011, respectively. The weighted-average fair value of RSUs granted was $20.46 and $15.60 per share for the nine months ended March 31, 2012 and March 26, 2011, respectively.

Stock Options

The following table summarizes outstanding, exercisable and vested and expected to vest stock options as of March 31, 2012 and their activity for the nine months ended March 31, 2012:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in Years)	Aggregate Intrinsic Value (1)
Balance at June 25, 2011	28,332,486	$25.62		
Options Granted	3,103,962	22.76		
Options Exercised	(1,982,156)	17.08		
Options Cancelled	(3,254,938)	32.76		
Balance at March 31, 2012	26,199,354	$25.04	3.6	$175,393,636
Exercisable, March 31, 2012	14,658,695	$30.45	2.4	$55,870,398
Vested and expected to vest, March 31, 2012	24,757,954	$25.36	3.5	$162,536,417

(1) Aggregate intrinsic value represents the difference between the exercise price and the closing price per share of the Company's common stock on March 30, 2012, the last business day preceding the fiscal quarter-end, multiplied by the number of options outstanding, exercisable or vested and expected to vest as of March 31, 2012.

As of March 31, 2012, there was $36.4 million of total unrecognized stock compensation cost related to 11.5 million unvested stock options, which is expected to be recognized over a weighted average period of approximately 2.7 years.

Restricted Stock Units

The following table summarizes outstanding and expected to vest RSUs as of March 31, 2012 and their activity during the nine months ended March 31, 2012:

	Number of Shares	Weighted Average Remaining Contractual Term (in Years)	Aggregate Intrinsic Value (1)
Balance at June 25, 2011	10,000,738		
Restricted stock units granted	3,403,624		
Restricted stock units released	(2,616,786)		
Restricted stock units cancelled	(999,655)		
Balance at March 31, 2012	9,787,921	2.6	$278,302,475
Vested and expected to vest, March 31, 2012	8,646,051	2.6	$246,498,922

(1) Aggregate intrinsic value for RSUs represents the closing price per share of the Company's common stock on March 30, 2012, the last business day preceding the fiscal quarter-end, multiplied by the number of RSUs outstanding or expected to vest as of March 31, 2012.

The Company withheld shares totaling $7.7 million and $22.7 million in value as a result of employee withholding taxes based on the value of the RSUs on their vesting date as determined by the Company's closing stock price for the three and nine months ended March 31, 2012, respectively. The total payments for the employees' tax obligations to the taxing authorities are reflected as financing activities within the Condensed Consolidated Statements of Cash Flows.

As of March 31, 2012, there was $128.2 million of unrecognized compensation expense related to 9.8 million unvested RSUs, which is expected to be recognized over a weighted average period of approximately 2.6 years.

Employee Stock Purchase Plan

As of March 31, 2012, there was $4.6 million of unrecognized compensation expense related to the ESPP.

NOTE 7: EARNINGS PER SHARE

Basic earnings per share are computed using the weighted average number of shares of common stock outstanding during the period. For purposes of computing basic earnings per share, the weighted average number of outstanding shares of common stock excludes unvested RSUs. Diluted earnings per share incorporates the incremental shares issuable upon the assumed exercise of stock options, assumed release of unvested RSUs and assumed issuance of common stock under the employee stock purchase plans using the treasury stock method.

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

	Three Months Ended		Nine Months Ended	
	March 31, 2012	March 26, 2011	March 31, 2012	March 26, 2011
	(in thousands, except per share data)			
Numerator for basic earnings per share and diluted earnings per share				
Income from continuing operations	$22,708	$136,276	$244,284	$363,416
Income from discontinued operations	31,809	—	31,809	—
Net income	$54,517	$136,276	$276,093	$363,416
Denominator for basic earnings per share	292,276	296,511	292,829	297,090
Effect of dilutive securities:				
Stock options, ESPP and RSUs	7,945	8,004	7,284	5,291
Denominator for diluted earnings per share	300,221	304,515	300,113	302,381
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

Approximately 12.2 million and 14.4 million stock options were excluded from the calculation of diluted earnings per share for the three months ended March 31, 2012 and March 26, 2011, respectively. Approximately 14.1 million and 17.8 million stock options were excluded from the calculation of diluted earnings per share for the nine months ended March 31, 2012 and March 26, 2011, respectively. These options were excluded because they were determined to be antidilutive. However, such options could be dilutive in the future and, under those circumstances, would be included in the calculation of diluted earnings per share.

NOTE 8: SEGMENT INFORMATION

The Company operates and tracks its results as one reportable segment. The Company designs, develops, manufactures and markets a broad range of analog integrated circuits. The Chief Executive Officer has been identified as the Chief Operating Decision Maker.

The Company has sixteen operating segments which aggregate into one reportable segment. Two or more operating segments may be aggregated into a single operating segment for financial reporting purposes if the segments have similar economic characteristics and if the segments are similar in each of the following areas:

- the nature of products and services;
- the nature of the production processes;

- the type or class of customer for their products and services; and
- the methods used to distribute their products or provide their services.

The Company meets each of the aggregation criteria for the following reasons:

- the sale of analog and mixed signal integrated circuits is the primary source of revenue for each of the Company's sixteen operating segments;
- the integrated circuits sold by each of the Company's operating segments are manufactured using similar semiconductor manufacturing processes;
- the integrated circuits marketed by each of the Company's operating segments are sold to the same types of customers; and
- all of the Company's integrated circuits are sold through a centralized sales force and common electronics distributors.

All of the Company's operating segments share similar economic characteristics as they have a similar long term business model. The causes for variation among the Company's operating segments are the same and include factors such as (i) life cycle and price and cost fluctuations, (ii) number of competitors, (iii) product differentiation and (iv) size of market opportunity. Additionally, each operating segment is subject to the overall cyclical nature of the semiconductor industry. The number and composition of employees and the amounts and types of tools and materials required are similar for each operating segment. Finally, even though the Company periodically reorganizes its operating segments based upon changes in customers, end-markets or products, acquisitions, long-term growth strategies and the experience and bandwidth of the senior executives in charge, the common financial goals for each operating segment remain constant.

Enterprise-wide information is provided in accordance with GAAP. Geographical revenue information is based on customers' ship-to location. Long-lived assets consist of property, plant and equipment. Property, plant and equipment information is based on the physical location of the assets at the end of each reporting period.

Net revenues from unaffiliated customers by geographic region were as follows:

	Three Months Ended		Nine Months Ended	
	March 31, 2012	March 26, 2011	March 31, 2012	March 26, 2011
	(in thousands)			
United States	$69,273	$88,998	$220,714	$269,540
China	254,414	220,805	791,240	681,249
Japan	31,002	41,503	105,236	123,957
Korea	39,958	64,620	147,397	216,994
Rest of Asia	85,116	72,720	253,748	208,440
Europe	75,933	100,381	230,566	284,890
Rest of World	15,516	17,748	49,672	60,780
	$571,212	$606,775	$1,798,573	$1,845,850

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Net long-lived assets by geographic region were as follows:

	March 31, 2012	June 25, 2011
	(in thousands)	
United States	$1,027,273	$972,380
Philippines	204,636	204,581
Thailand	101,833	120,838
Rest of World	27,558	11,051
	$1,361,300	$1,308,850

NOTE 9: COMPREHENSIVE INCOME

The changes in the components of Other Comprehensive Income, net of taxes, were as follows:

	Three Months Ended		Nine Months Ended	
	March 31, 2012	March 26, 2011	March 31, 2012	March 26, 2011
	(in thousands)			
Net income, as reported	$54,517	$136,276		