

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 23, 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
Less: accumulated depreciation	(972,829)	(952,915)
	\$595,622	\$606,581

Accrued salary and related expenses consist of:

	September 23, 2017	June 24, 2017
Accrued salary and related expenses: (in thousands)		
Accrued vacation	\$29,112	\$29,621
Accrued bonus	27,813	85,600
Accrued salaries	15,622	14,528
ESPP withholding	14,062	3,513
Other	16,585	12,037
	\$103,194	\$145,299

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 securities, Agency securities, Corporate debt securities, Certificates of deposit, Commercial paper, foreign currency forward contracts and long-term debt that are valued using quoted market prices or are determined using a yield curve model based on current market rates.

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 23, 2017 and June 24, 2017.

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

	As of September 23, 2017			As of June 24, 2017		
	Fair Value			Fair Value		
	Measurements Using		Total	Measurements Using		Total
	Level 1	Level 2	Level 3 Balance	Level 1	Level 2	Level 3 Balance
	(in thousands)					
Assets						
Cash and cash equivalents						
Money market funds	\$100,896	\$—	\$ —	\$100,896	\$—	\$ —
Commercial paper	—	34,614	—	34,614	—	—
Corporate debt securities	—	5,325	—	5,325	—	—
Short Term Investments						
Agency securities	—	6,974	—	6,974	—	—
Certificates of deposit	—	47,549	—	47,549	—	—
Commercial paper	—	105,971	—	105,971	—	—
Corporate debt securities	—	381,115	—	381,115	—	—
U.S. Treasury securities	—	655,218	—	655,218	—	498,718
Other Current Assets						
Foreign currency forward contracts	—	874	—	874	—	848
Total Assets	\$100,896	\$1,237,640	\$ —	\$1,338,536	\$952,462	\$499,566
Liabilities						
Other Current Liabilities						
Foreign currency forward contracts	\$—	\$321	\$ —	\$—	\$386	\$ —
Total Liabilities	\$—	\$321	\$ —	\$—	\$386	\$ —

During the three months ended September 23, 2017 and June 24, 2017, 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 23, 2017 and June 24, 2017 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 23, 2017				June 24, 2017			
	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								
Agency Securities	6,973	1	—	6,974	—	—	—	—
Certificates of deposit	47,549	—	—	47,549	—	—	—	—
Commercial paper	105,971	—	—	105,971	—	—	—	—
Corporate debt securities	381,292	—	(177)	381,115	—	—	—	—
U.S. Treasury securities	\$656,374	\$ —	\$ (1,156)	\$655,218	\$499,952	\$ —	\$ (1,234)	\$498,718
Total available-for-sale investments	\$1,198,159	\$ 1	\$ (1,333)	\$1,196,827	\$499,952	\$ —	\$ (1,234)	\$498,718

In the three months ended September 23, 2017 and the year ended June 24, 2017, the Company did not recognize any impairment charges on short-term investments. The U.S. Treasury securities have maturity dates between November 30, 2017 and June 15, 2019.

Our investment managers invest in various financial instruments including U.S. Treasury securities, corporate debt securities, commercial paper, and certificates of deposit which include instruments issued or managed by industrial, financial, and utility institutions and U.S. Treasury securities which include U.S. government Treasury Bills and Treasury Notes.

Derivative instruments and hedging activities

In the first quarter of fiscal year 2018, the Company early-adopted 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. There was no material change to the Company's consolidated financial statements as a result of this adoption. This adoption was on a prospective basis and therefore had no impact on prior periods.

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 Euro, Indian Rupee, Japanese Yen, Taiwan New Dollar, South Korean Won, and Chinese Yuan, 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 23, 2017 and June 24, 2017, the notional amounts of the forward contracts the Company held to purchase international currencies were \$52.6 million and \$36.2 million, respectively, and the notional amounts of forward contracts the Company held to sell international currencies were \$1.5 million and \$0.2 million, respectively.

Derivatives not designated as hedging instruments

As of September 23, 2017 and June 24, 2017, the notional amounts of the forward contracts the Company held to purchase international currencies were \$15.9 million and \$44.5 million, respectively, and the notional amounts of forward contracts the Company held to sell international currencies were \$25.1 million and \$21.6 million, respectively. The fair values of our outstanding foreign currency forward contracts and gain (loss) included in the Condensed Consolidated Statements of Income were not material for the three months ended September 23, 2017 and the year ended June 24, 2017.

Effect of hedge accounting on the Condensed Consolidated Statements of Income

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The following table summarizes the gains and (losses) from hedging activities recognized in the Company's Condensed Consolidated Statements of Income:

	September 23, 2017		
	Net Revenue	Cost of Goods Sold	Operating Expenses
	(in thousands)		
Income and expenses line items in which the effects of cash flow hedges are recorded	\$575,676	\$201,845	\$188,665
Gain (loss) on cash flow hedges:			
Foreign exchange contracts:			
Gain (loss) reclassified from accumulated other comprehensive income into income	(41) 3	1,148
Outstanding debt obligations			

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

	September 23, 2017	June 24, 2017
	(in thousands)	
3.450% fixed rate notes due June 2027	\$500,000	\$500,000
2.5% fixed rate notes due November 2018	500,000	500,000
3.375% fixed rate notes due March 2023	500,000	500,000
Total	1,500,000	1,500,000
Less: Reduction for unamortized discount and debt issuance costs	(11,594) (12,322
Total long-term debt	\$1,488,406	\$1,487,678

On June 15, 2017, the Company completed a public offering of \$500 million aggregate principal amount of the Company's 3.450% senior unsecured and unsubordinated notes due in June 2027 ("2027 Notes"), with an effective interest rate of 3.5%. Interest on the 2027 Notes is payable semi-annually in arrears on June 15 and December 15 of each year, commencing on December 15, 2017. The net proceeds of this offering were approximately \$495.2 million, after issuing at a discount and deducting paid expenses.

On November 21, 2013, the Company completed a public offering of \$500 million aggregate principal amount of the Company's 2.5% coupon senior unsecured and unsubordinated notes due in November 2018 ("2018 Notes"), with an effective interest rate of 2.6%. Interest on the 2018 Notes is payable semi-annually in arrears on May 15 and November 15 of each year, commencing on May 15, 2014. The net proceeds of this offering were approximately \$494.5 million, after issuing at a discount and deducting paid expenses.

On March 18, 2013, the Company completed a public offering of \$500 million aggregate principal amount of the Company's 3.375% senior unsecured and unsubordinated notes due in March 2023 ("2023 Notes"), with an effective interest rate of 3.5%. Interest on the 2023 Notes is payable semi-annually in arrears on March 15 and September 15 of each year. The net proceeds of this offering were approximately \$490 million, after issuing at a discount and deducting paid expenses.

The debt indentures that govern the 2027 Notes, the 2023 Notes and the 2018 Notes, respectively, include covenants that limit the Company's ability to grant liens on its facilities and to enter into sale and leaseback transactions, which could limit the Company's ability to secure additional debt funding in the future. In circumstances involving a change of control of the Company followed by a downgrade of the rating of the 2027 Notes, the 2023 Notes or the 2018

Notes, the Company would be required to make an offer to repurchase the affected notes at a purchase price equal to 101% of the aggregate principal amount of such notes, plus accrued and unpaid interest.

The Company accounts for all the notes above based on their amortized cost. The discount and expenses are being amortized to Interest and other income (expense), net in the Condensed Consolidated Statements of Income over the life of the notes. The

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interest expense is recorded in Interest and other income (expense), net in the Condensed Consolidated Statements of Income. Amortized discount and expenses, as well as interest expense associated with the notes was \$12.6 million and \$9.1 million during the three months ended September 23, 2017 and September 24, 2016, respectively.

The estimated fair value of the Company's long-term debt was approximately \$1,518 million as of September 23, 2017. The estimated fair value of the debt is based primarily on observable market inputs and is a Level 2 measurement.

The Company recorded interest expense of \$12.6 million and \$9.8 million during the three months ended September 23, 2017, and September 24, 2016, respectively.

Credit Facility

Revolving credit facility

The Company has access to a \$350 million senior unsecured revolving credit facility with certain institutional lenders that expires on June 27, 2019. The facility fee is at a rate per annum that varies based on the Company's index debt rating and any advances under the credit agreement will accrue interest at a base rate plus a margin based on the Company's index debt 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 September 23, 2017, the Company had not borrowed any amounts from this credit facility and was in compliance with all debt covenants.

Other Financial Instruments

For the balance of the Company'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

At September 23, 2017, the Company had one stock incentive plan, the Company's 1996 Stock Incentive Plan (the "1996 Plan") and one employee stock purchase plan, the 2008 Employee Stock Purchase Plan (the "2008 ESPP"). The 1996 Plan was adopted by the Board of Directors to provide the grant of incentive stock options, non-statutory stock options, restricted stock units ("RSUs"), and market stock units ("MSUs") to employees, directors, and consultants.

Pursuant to the 1996 Plan, the exercise price for incentive stock options and non-statutory stock options is determined to be the fair market value of the underlying shares on the date of grant. Options typically vest ratably over a four-year period measured from the date of grant. Options generally expire no later than seven years after the date of grant, subject to earlier termination upon an optionee's cessation of employment or service.

RSUs granted to employees typically vest over a four-year period and are converted into shares of the Company's common stock upon vesting, subject to the employee's continued service to the Company over that period. RSUs granted after August 2017 will continue to vest post-employment at the Company for certain individuals satisfying specific eligibility requirements.

MSUs granted to employees typically vest over a four-year cliff period and are converted into shares of the Company's common stock upon vesting, subject to the employee's continued service to the Company over that period. The number of shares that are released at the end of the performance period can range from zero to a maximum cap depending on the Company's performance. For MSUs granted prior to September 2017, the performance metrics of this program are based on relative performance of the Company's stock price as compared to the Semiconductor

Exchange Traded Fund index SPDR S&P (the "XSD"). For MSUs granted in September 2017, the performance metrics for this program are based on total shareholder return ("TSR") of the Company relative to the TSR of the other companies included in the XSD; these MSUs vest based upon annual performance and subject to continued service through the end of the four-year cliff period. MSUs granted after August 2017 will continue to vest post-employment at the Company for certain individuals satisfying specific eligibility requirements.

The following tables show 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 months ended September 23, 2017 and September 24, 2016, respectively:

	Three Months Ended September 23, 2017				September 24, 2016			
	Stock Options	Restricted Stock Units	Employee Stock Purchase Plan	Total	Stock Options	Restricted Stock Units	Employee Stock Purchase Plan	Total
	(in thousands)							
Cost of goods sold	\$86	\$ 1,836	\$ 478	\$2,400	\$180	\$ 1,583	\$ 484	\$2,247
Research and development	308	6,588	970	7,866	222	6,696	1,218	8,136
Selling, general and administrative	363	6,130	528	7,021	642	5,476	619	6,737
Pre-tax stock-based compensation expense	\$757	\$ 14,554	\$ 1,976	\$17,287	\$1,044	\$ 13,755	\$ 2,321	\$17,120
Less: income tax effect				2,890				3,067
Net stock-based compensation expense				\$14,397				\$14,053

The expenses included in the Condensed Consolidated Statements of Income related to RSUs include expenses related to MSUs of \$1.4 million and \$0.6 million for the three months ended September 23, 2017 and September 24, 2016, respectively.

Stock Options

The fair value of options granted to employees under the 1996 Plan is estimated on the date of grant using the Black-Scholes option valuation model.

There were no stock options granted in the three months ended September 23, 2017 and three months ended September 24, 2016.

The following table summarizes outstanding, exercisable and vested and expected to vest stock options as of September 23, 2017 and their activity for the three months ended September 23, 2017:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Term (in Years)	Contractual	Aggregate Intrinsic Value (1)
Balance at June 24, 2017	2,800,007	\$ 26.92			
Options Granted	—	\$ —			
Options Exercised	(215,518)	\$ 24.72			
Options Cancelled	(16,119)	\$ 27.65			
Balance at September 23, 2017	2,568,370	\$ 27.10	2.4		\$50,795,978
Exercisable, September 23, 2017	2,207,281	\$ 26.86	2.2		\$44,006,223
Vested and expected to vest, September 23, 2017	2,572,898	\$ 27.10	2.4		\$50,687,189

Aggregate intrinsic value represents the difference between the exercise price and the closing price per share of the (1) Company's common stock on September 22, 2017, 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 September 23, 2017.

As of September 23, 2017, there was \$0.5 million of total unrecognized stock compensation cost related to 0.4 million unvested stock options, which is expected to be recognized over a weighted average period of approximately 0.2 years.

Restricted Stock Units and Other Awards

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The fair value of RSUs and other awards under the Company's 1996 Plan 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. The Company also estimates forfeitures at the time of grant and makes revisions to forfeitures on a quarterly basis.

The weighted-average fair value of RSUs and other awards granted was \$41.69 and \$35.97 per share for the three months ended September 23, 2017 and September 24, 2016, respectively.

The following table summarizes the outstanding and expected to vest RSUs and other awards as of September 23, 2017 and their activity during the three months ended September 23, 2017:

	Number of Shares	Weighted Average Remaining Contractual Term (in Years)	Aggregate Intrinsic Value (1)
Balance at June 24, 2017	5,942,123		
Restricted stock units and other awards granted	1,474,402		
Restricted stock units and other awards released	(379,894)		
Restricted stock units and other awards cancelled	(212,505)		
Balance at September 23, 2017	6,824,126	3.1	\$ 320,782,316
Outstanding and expected to vest, September 23, 2017	5,580,218	2.9	\$ 261,154,180

Aggregate intrinsic value for RSUs and other awards represents the closing price per share of the Company's (1) common stock on September 22, 2017, the last business day preceding the fiscal quarter-end, multiplied by the number of RSUs outstanding or expected to vest as of September 23, 2017.

The Company withheld shares totaling \$5.4 million in value as a result of employee withholding taxes based on the value of the RSUs on their vesting date for the three months ended September 23, 2017. 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 September 23, 2017, there was \$174.6 million of unrecognized compensation expense related to 6.8 million unvested RSUs and other awards, which is expected to be recognized over a weighted average period of approximately 3.0 years.

Market Stock Units (MSUs)

The Company granted MSUs to senior members of management in September 2014, September 2015 and September 2016. The grant of MSUs was in lieu of granting stock options. These MSUs vest based on the relative performance of the Company's stock price as compared to the Semiconductor Exchange Traded Fund index SPDR S&P (the "XSD"). The Company also granted MSUs to senior members of management in September 2017; these MSUs vest based on the TSR of the Company relative to the TSR of the other companies included in the XSD. The fair value of MSUs is estimated using a Monte Carlo simulation model on the date of grant. The Company also estimates forfeitures at the time of grant and makes revisions to forfeitures on a quarterly basis. Compensation expense is recognized based on the initial valuation and is not subsequently adjusted as a result of the Company's performance relative to that of the XSD or the TSR of the companies included in the XSD index, as applicable. Vesting for MSUs is contingent upon both service and market conditions, and has a four-year vesting cliff period; provided that MSUs granted in September 2017 vest based upon annual performance and subject to continued service through the end of the four-year period.

The weighted-average fair value of MSUs granted was \$51.03 and \$37.29 per share for the three months ended September 23, 2017 and September 24, 2016, respectively.

The following table summarizes the number of MSUs outstanding and expected to vest as of September 23, 2017 and their activity during the three months ended September 23, 2017:

	Number of Shares	Weighted Average Remaining Contractual Term (in Years)	Aggregate Intrinsic Value (1)
Balance at June 24, 2017	818,028		
Market stock units granted	292,336		
Market stock units released	—		
Market stock units cancelled	(5,140)		
Balance at September 23, 2017	1,105,224	3.2	\$ 51,724,483
Outstanding and expected to vest, September 23, 2017	390,942	3.3	\$ 18,296,091

Aggregate intrinsic value for MSUs represents the closing price per share of the Company's common stock on (1) September 22, 2017, the last business day preceding the fiscal quarter-end, multiplied by the number of MSUs outstanding or expected to vest as of September 23, 2017.

As of September 23, 2017, there was \$29.0 million of unrecognized compensation expense related to 1.1 million unvested MSUs, which is expected to be recognized over a weighted average period of approximately 3.2 years.

Employee Stock Purchase Plan

Employees are granted rights to acquire common stock under the 2008 ESPP.

The fair value of ESPP rights granted to employees has been estimated at the date of grant using the Black-Scholes option valuation model using the following assumptions for the offering periods outstanding:

	ESPP Three Months Ended	
	September 23, 2017	September 24, 2016
Expected holding period (in years)	0.5 years	0.5 years
Risk-free interest rate	0.8% - 1.1%	0.5%
Expected stock price volatility	19.1% - 24.7%	27.2% - 28.2%
Dividend yield	3.0% - 3.4%	3.5% - 3.6%

As of September 23, 2017 and September 24, 2016, there was \$2.9 million and \$3.1 million, respectively, of unrecognized compensation expense related to the 2008 ESPP.

NOTE 7: EARNINGS (LOSS) PER SHARE

Basic earnings (loss) per share are computed using the weighted average number of shares of common stock outstanding during the period. For purposes of computing basic earnings (loss) per share, the weighted average number of outstanding shares of common stock excludes unvested RSUs and MSUs. Diluted earnings (loss) per share incorporates the incremental shares issuable upon the assumed exercise of stock options, assumed release of unvested RSUs, Performance Shares, MSUs and assumed issuance of common stock under the 2008 ESPP using the treasury

stock method.

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The following table sets forth the computation of basic and diluted earnings (loss) per share:

	Three Months Ended	
	September 23, 2017	September 24, 2016
	(in thousands, except per share data)	
Numerator for basic earnings (loss) per share and diluted earnings (loss) per share		
Net income (loss)	\$ 154,533	\$ 137,614
Denominator for basic earnings (loss) per share	282,170	283,633
Effect of dilutive securities:		
Stock options, ESPP, RSUs, and MSUs	4,267	4,941
Denominator for diluted earnings (loss) per share	286,437	288,574
Earnings (loss) per share		
Basic	\$0.55	\$ 0.49
Diluted	\$0.54	\$ 0.48

For the three months ended September 23, 2017 and September 24, 2016, respectively, no stock options were determined to be anti-dilutive and therefore none were excluded from the calculation of diluted earnings per share.

NOTE 8: SEGMENT INFORMATION

The Company designs, develops, manufactures and markets a broad range of linear and mixed signal integrated circuits. All of the Company's products are designed through a centralized R&D function, manufactured using centralized manufacturing (internal and external), and sold through a centralized sales force and shared wholesale distributors.

The Company currently has one operating segment. In accordance with ASC No. 280, Segment Reporting ("ASC 280"), the Company considers operating segments to be components of the Company's business for which separate financial information is available that is evaluated regularly by the Company's Chief Operating Decision Maker in deciding how to allocate resources and in assessing performance. The Chief Operating Decision Maker for the Company was assessed and determined to be the CEO. The CEO reviews financial information presented on a consolidated basis for purposes of allocating resources and evaluating financial performance. Accordingly, the Company has determined that it has a single operating and reportable segment.

Enterprise-wide information is provided in accordance with ASC 280. 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 fiscal year.

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

	Three Months Ended	
	September 23, 2017	September 24, 2016
	(in thousands)	
United States	\$64,641	\$ 70,151
China	212,766	213,510
Rest of Asia	180,950	174,368

Europe	104,134	89,638
Rest of World	13,185	13,729
	\$575,676	\$561,396

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

	September 23, 2017	June 24, 2017
	(in thousands)	
United States	\$364,999	\$374,775
Philippines	129,031	128,241
Rest of World	101,592	103,565
	\$595,622	\$606,581

NOTE 9: COMPREHENSIVE INCOME (LOSS)

The changes in accumulated other comprehensive loss by component and related tax effects in the three months ended September 23, 2017 and September 24, 2016 were as follows:

(in thousands)	Unrealized Gains and Losses on Intercompany Receivables	Unrealized Gains and Losses on Post-Retirement Benefits	Cumulative Translation Adjustment	Unrealized Gains and Losses on Cash Flow Hedges	Unrealized Gains and Losses on Available-For-Sale Securities	Total
June 24, 2017	\$ (6,280)	\$ (1,258)	\$ (1,136)	\$ 18	\$ (1,234)	\$ (9,890)
Other comprehensive income (loss) before reclassifications	—	—	—	1,583	(98)	1,485
Amounts reclassified out of accumulated other comprehensive loss (income)	—	66	—	(1,110)	—	(1,044)
Tax effects	—	(22)	—	(120)	—	(142)
Other comprehensive income (loss)	—	44	—	353	(98)	299
September 23, 2017	\$ (6,280)	\$ (1,214)	\$ (1,136)	\$ 371	\$ (1,332)	\$ (9,591)

(in thousands)	Unrealized Gains and Losses on Intercompany Receivables	Unrealized Gains and Losses on Post-Retirement Benefits	Cumulative Translation Adjustment	Unrealized Gains and Losses on Cash Flow Hedges	Unrealized Gains and Losses on Available-For-Sale Securities	Total
June 25, 2016	\$ (6,280)	\$ (6,800)	\$ (1,136)	\$ (492)	\$ 489	\$ (14,219)
Other comprehensive income (loss) before reclassifications	—	—	—	448	4,245	4,693
Amounts reclassified out of accumulated other comprehensive loss (income)	—	7,652	—	60	—	7,712
Tax effects	—	(2,805)	—	(122)	(1,633)	(4,560)
Other comprehensive income (loss)	—	4,847	—	386	2,612	7,845
September 24, 2016	\$ (6,280)	\$ (1,953)	\$ (1,136)	\$ (106)	\$ 3,101	\$ (6,374)

NOTE 10: INCOME TAXES

In the three months ended September 23, 2017 and September 24, 2016, the Company recorded an income tax provision of \$26.4 million and \$27.6 million, respectively. The Company's effective tax rate for the three months ended September 23, 2017 and September 24, 2016 was 14.6% and 16.7%, respectively.

The Company's federal statutory tax rate is 35%. The Company's effective tax rate for the three months ended September 23, 2017 was lower than the statutory rate primarily due to earnings of foreign subsidiaries, generated primarily by the Company's international operations managed in Ireland, that were taxed at lower rates, and a \$2.0 million discrete benefit for excess tax benefits generated by the settlement of share-based awards, partially offset by share-based compensation for which no tax benefit is expected and interest accruals for unrecognized tax benefits.

The Company's effective tax rate for the three months ended September 24, 2016 was lower than the statutory rate primarily due to earnings of foreign subsidiaries, generated primarily by the Company's international operations managed in Ireland, that were taxed at lower rates, and a \$3.3 million discrete benefit for excess tax benefits generated by the settlement of share-based awards, partially offset by share-based compensation for which no tax benefit is expected.

The Company's federal corporate income tax returns are audited on a recurring basis by the Internal Revenue Service ("IRS"). The IRS has concluded its field examination of the Company's federal corporate income tax returns for fiscal years 2009 through 2011 and issued an IRS Revenue Agent's Report in July 2016 that includes proposed adjustments for transfer pricing issues related to cost sharing and buy-in license payments for the use of intangible property by one of the Company's international subsidiaries. The Company disagrees with the proposed transfer pricing adjustments and related penalties, and in September 2016, the Company filed a protest to challenge the proposed adjustments and request a conference with the Appeals Office of the IRS. The Company believes that its reserves for unrecognized tax benefits are sufficient to cover any potential assessments that may result from the final resolution of these transfer pricing issues. In fiscal year 2017, the IRS commenced an audit of the Company's federal corporate income tax returns for fiscal years 2012 through 2014, which is ongoing.

NOTE 11: COMMITMENTS AND CONTINGENCIES

Legal Proceedings

The Company is party or subject to various legal proceedings and claims, either asserted or unasserted, which arise in the ordinary course of business, including proceedings and claims that relate to intellectual property matters. While the outcome of these matters cannot be predicted with certainty, the Company does not believe that the outcome of any of these matters, individually or in the aggregate, will result in losses that are materially in excess of amounts already recognized or reserved, if any.

Indemnification

The Company indemnifies certain customers, distributors, suppliers and subcontractors for attorney fees, damages and costs awarded against such parties in certain circumstances in which the Company's products are alleged to infringe third party intellectual property rights, including patents, registered trademarks or copyrights. The terms of the Company's indemnification obligations are generally perpetual from the effective date of the agreement. In certain cases, there are limits on and exceptions to the Company's potential liability for indemnification relating to intellectual property infringement claims.

Pursuant to the Company's charter documents and separate written indemnification agreements, the Company has certain indemnification obligations to its current officers, employees and directors, as well as certain former officers and directors.

Product Warranty

The Company accrues for specific and estimated products claims resulting from defects in materials, workmanship and material non-conformance to the Company's specifications. The Company's aggregate product warranty liabilities as of September 23, 2017 and September 24, 2016 were \$5.3 million and \$9.6 million, respectively.

NOTE 12: COMMON STOCK REPURCHASES

On July 20, 2017, the board of directors of the Company authorized the repurchase of up to \$1 billion of the Company's common stock. The stock repurchase authorization does not have an expiration date and the pace of repurchase activity will depend on factors such as current stock price, levels of cash generation from operations, cash requirements, and other factors. All prior

repurchase authorizations by the Company's Board of Directors for the repurchase of common stock were cancelled and superseded by this new repurchase authorization.

During the three months ended September 23, 2017, the Company repurchased approximately 1.7 million shares of its common stock for \$75.3 million. As of September 23, 2017, the Company had remaining authorization of \$951.0 million for future share repurchases. The number of shares to be repurchased and the timing of such repurchases will be based on several factors, including the price of the Company's common stock and general market and business conditions.

NOTE 13: GOODWILL AND INTANGIBLE ASSETS

Goodwill

The Company monitors the recoverability of goodwill recorded in connection with acquisitions, by reporting unit, annually, or more often if events or changes in circumstances indicate that the carrying amount may not be recoverable.

Fiscal Year 2018

No indicators or instances of impairment were identified in the three months ended September 23, 2017.

Fiscal Year 2017

In fiscal year 2017, the Company elected to perform a qualitative analysis to assess impairment of goodwill rather than to perform the quantitative goodwill impairment test. The key qualitative factors considered in the assessment included the change in the industry and competitive environment, market capitalization, and overall financial performance. Based on the results of this qualitative analysis, the Company determined that it was more likely than not that the fair value of each reporting unit exceeded its carrying value, and therefore, the Company concluded that goodwill was not impaired in fiscal year 2017.

Intangible Assets

The useful lives of amortizable intangible assets are as follows:

Asset	Life
Intellectual property	1-10 years
Customer relationships	3-10 years
Trade name	1-4 years
Patents	5 years

Intangible assets consisted of the following:

	September 23, 2017			June 24, 2017		
	Original Cost	Accumulated Amortization	Net	Original Cost	Accumulated Amortization	Net
	(in thousands)					
Intellectual property	\$453,685	\$ 388,870	\$64,815	\$451,885	\$ 377,806	\$74,079
Customer relationships	115,634	101,034	14,600	115,634	99,812	15,822

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Trade name	8,500	8,486	14	8,500	8,086	414
Patents	2,500	2,079	421	2,500	1,948	552
Total amortizable purchased intangible assets	580,319	500,469	79,850	578,519	487,652	90,867
IPR&D	—	—	—	—	—	—
Total purchased intangible assets	\$580,319	\$ 500,469	\$79,850	\$578,519	\$ 487,652	\$90,867

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The following table presents the amortization expense of intangible assets and its presentation in the Condensed Consolidated Statements of Income:

	Three Months Ended September	
	23, 2017	24, 2016
	(in thousands)	
Cost of goods sold	\$ 11,064	\$ 12,602
Intangible asset amortization	1,752	2,443
Total intangible asset amortization expenses	\$ 12,816	\$ 15,045

The following table represents the estimated future amortization expense of intangible assets as of September 23, 2017:

Fiscal Year	Amount (in thousands)
Remaining nine months of 2018	\$ 35,555
2019	20,161
2020	10,242
2021	8,454
2022	2,862
Thereafter	2,576
Total intangible assets	\$ 79,850

NOTE 14: IMPAIRMENT OF LONG-LIVED ASSETS

Fiscal year 2018:

During the three months ended September 23, 2017, impairment of long-lived assets recorded in the Company's Condensed Consolidated Statements of Income was not material.

Fiscal year 2017:

During the fiscal year ended June 24, 2017, the Company recorded \$7.5 million in impairment of long-lived assets in the Company's Consolidated Statements of Income. The impairment was primarily associated with certain investments in privately held companies. The Company uses various inputs to evaluate investments in privately held companies including valuations of recent financing events as well as other information regarding the issuer's historical and forecasted performance. The Company reached its conclusion regarding the asset impairment due to changes, during the fiscal year 2017, in the financial condition of certain investments in privately held companies which indicated an other than temporary impairment.

During the second quarter of fiscal year 2016, the Company classified the micro-electromechanical systems (MEMS) business line, including associated tangible assets and goodwill, as held for sale but no impairment charge was recorded as the carrying value of the product lines' associated assets approximated or was less than the fair value, less cost to sell. The fair values of the assets were determined after consideration of quoted market prices of similar

equipment and offers received. During the first quarter of fiscal year 2017, the Company completed the sale of this business line for approximately \$42.2 million, resulting in a gain of \$26.6 million, included in Other operating income (expenses), net in the Condensed Consolidated Statements of Income.

NOTE 15: RESTRUCTURING ACTIVITIES

Fiscal year 2018:

During the three months ended September 23, 2017, the Company recorded \$5.4 million in “Severance and restructuring expenses” in the Condensed Consolidated Statements of Income related to various restructuring plans designed to reduce costs. These charges

were primarily associated with continued reorganization of certain business units and functions. Multiple job classifications and locations were impacted by these activities.

Fiscal year 2017:

During the fiscal year ended June 24, 2017, the Company recorded \$12.5 million in “Severance and restructuring expenses” in the Consolidated Statements of Income related to various restructuring plans designed to reduce costs. These charges were primarily associated with continued reorganization of certain business units and functions and the closure of the Dallas wafer level packaging (“WLP”) manufacturing facilities. Multiple job classifications and locations were impacted by these activities.

During the fiscal year ended June 24, 2017, the Company completed the closure of its Dallas, Texas campus, including ceasing operations of its WLP manufacturing facility. The Company recorded accelerated depreciation charges of \$3.5 million in "Cost of goods sold" and \$0.8 million in "Operating expenses" in the Consolidated Statements of Income during the fiscal year ended June 24, 2017 in connection with this closure.

Restructuring Accruals

The Company has accruals for severance and restructuring payments within Accrued salary and related expenses in the accompanying Condensed Consolidated Balance Sheets. The following table summarizes changes in the accruals associated with these restructuring activities during the three months ended September 23, 2017:

	Balance, June 24, 2017	Three Months Ended September 23, 2017	Balance, September 23, 2017
		Cash Charges Payments	Change in Estimates
	(in thousands)		
Severance - All plans (1)	\$ 526	5,238 (4,268)	195
			\$ 1,691

(1) Charges and change in estimates are included in Severance and restructuring expenses in the accompanying Condensed Consolidated Statements of Income.

ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Maxim Integrated Products, Inc. (“Maxim Integrated” or the “Company” and also referred to as “we,” “our” or “us”) disclaims any duty to and undertakes no obligation to update any forward-looking statement, whether as a result of new information relating to existing conditions, future events or otherwise or to release publicly the results of any future revisions it may make to forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events, except as required by federal securities laws. Readers are cautioned not to place undue reliance on such statements, which speak only as of the date of this Quarterly Report on Form 10-Q. Readers should carefully review future reports and documents that the Company files with or furnishes to the SEC from time to time, such as its Annual Reports on Form 10-K, its Quarterly Reports on Form 10-Q and any Current Reports on Form 8-K.

Overview of Business

Maxim Integrated is incorporated in the state of Delaware. Maxim Integrated designs, develops, manufactures and markets a broad range of linear and mixed-signal integrated circuits, commonly referred to as analog circuits, for a

large number of geographically diverse customers. We also provide a range of high-frequency process technologies and capabilities that can be used in custom designs. The analog market is fragmented and characterized by many diverse applications, a great number of product variations and, with respect to many circuit types, relatively long product life cycles. We are a global company with a wafer manufacturing facility in the U.S., testing facilities in the Philippines and Thailand and sales and circuit design offices around the world. The major end-markets in which our products are sold are the Automotive, Communications and Data Center, Computing, Consumer and Industrial markets.

During fiscal year 2015, we commenced activities to close down the operations in our Hillsboro, Oregon testing site and consolidate such operations with our facility in Beaverton, Oregon, which were completed in fiscal year 2017.

Also, we announced in July 2015 that we intended to close our wafer level packaging ("WLP") manufacturing facility in Dallas, Texas in fiscal year 2017. On April 7, 2016, we entered into an agreement for the sale of its Dallas, Texas campus, including our WLP manufacturing facility, for approximately \$34.5 million. We completed the sale of our Dallas, Texas campus, including our WLP manufacturing facility in Dallas, Texas in fiscal year 2016. In connection with this sale agreement, we entered into a lease and facility sharing agreement to lease back portions of the Dallas, Texas campus. We completed the transition of design, administration and manufacturing activities and discontinued our operations in the WLP manufacturing facility in Dallas, Texas during fiscal year 2017.

On April 13, 2016, we entered into agreements for the sale of our micro-electromechanical systems (MEMS) business line, including related assets and inventory, for approximately \$42.2 million. We completed the sale of our micro-electromechanical systems (MEMS) business line in fiscal year 2017.

CRITICAL ACCOUNTING POLICIES

The methods, estimates and judgments we use in applying our most critical accounting policies have a significant impact on the results we report in our financial statements. The Securities and Exchange Commission ("SEC") has defined the most critical accounting policies as the ones that are most important to the presentation of our financial condition and results of operations, and that require us to make our most difficult and subjective accounting judgments, often as a result of the need to make estimates of matters that are inherently uncertain. Based on this definition, our most critical accounting policies include revenue recognition, which impacts the recording of net revenues; valuation of inventories, which impacts costs of goods sold and gross margins; the assessment of recoverability of long-lived assets, which impacts impairment of long-lived assets; assessment of recoverability of intangible assets and goodwill, which impacts impairment of goodwill and intangible assets; accounting for income taxes, which impacts the income tax provision; and assessment of litigation and contingencies, which impacts charges recorded in cost of goods sold, selling, general and administrative expenses and income taxes. These policies and the estimates and judgments involved are discussed further in the Management's Discussion and Analysis of Financial Condition in our Annual Report on Form 10-K for the fiscal year ended June 24, 2017. We have other significant accounting policies that either do not generally require estimates and judgments that are as difficult or subjective, or it is less likely that such accounting policies would have a material impact on our reported results of operations for a given period.

There have been no material changes during the three months ended September 23, 2017 to the items that we disclosed as our critical accounting policies and estimates in Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the fiscal year ended June 24, 2017.

RESULTS OF OPERATIONS

The following table sets forth certain Condensed Consolidated Statements of Income data expressed as a percentage of net revenues for the periods indicated:

	Three Months Ended			
	September 23,		September 24,	
	2017	2016		
Net revenues	100.0 %	100.0 %		
Cost of goods sold	35.1 %	38.4 %		
Gross margin	64.9 %	61.6 %		
Operating expenses:				
Research and development	18.9 %	20.1 %		
Selling, general and administrative	12.8 %	12.6 %		
Intangible asset amortization	0.3 %	0.4 %		
Impairment of long-lived assets	— %	1.1 %		
Severance and restructuring expenses	0.9 %	1.8 %		
Other operating expenses (income), net	(0.1)%	(5.1)%		
Total operating expenses	32.8 %	30.9 %		
Operating income	32.2 %	30.7 %		
Interest and other income (expense), net	(0.7)%	(1.2)%		
Income before provision for income taxes	31.4 %	29.4 %		
Income tax provision (benefit)	4.6 %	4.9 %		
Net income (loss)	26.8 %	24.5 %		

The following table shows stock-based compensation included in the components of the Condensed Consolidated Statements of Income reported above as a percentage of net revenues for the periods indicated:

	Three Months Ended			
	September 23,		September 24,	
	2017	2016		
Cost of goods sold	0.4 %	0.4 %		
Research and development	1.4 %	1.4 %		
Selling, general and administrative	1.2 %	1.2 %		
	3.0 %	3.0 %		

Net Revenues

Net revenues were \$575.7 million and \$561.4 million for the three months ended September 23, 2017 and September 24, 2016, respectively. Revenue from industrial products was up 12% driven by higher sales of core industrial products. Revenue from automotive products was also up 13%, primarily driven by growth in infotainment. These increases were partially offset by a decrease in revenue from consumer products of 8%, primarily due to lower shipments of smartphone products.

During the three months ended September 23, 2017 and September 24, 2016, approximately 89% and 88% of net revenues, respectively, were derived from customers outside of the United States. While more than 98% of these sales are denominated in U.S. Dollars, we enter into foreign currency forward contracts to mitigate our risks on firm commitments and net monetary assets and liabilities denominated in foreign currencies. The impact of changes in

foreign exchange rates on our revenue and results of operations for the three months ended September 23, 2017 and September 24, 2016 was immaterial.

Gross Margin

Our gross margin percentages were 64.9% and 61.6% for the three months ended September 23, 2017 and September 24, 2016, respectively. Our gross margin increased by 3.3%, due to continued benefits from increased outsourcing of manufacturing, improved factory utilization and focus on cost reductions.

Research and Development

Research and development expenses were \$108.6 million and \$112.7 million for the three months ended September 23, 2017 and September 24, 2016, respectively, which represented 18.9% and 20.1% of net revenues for each respective period. The \$4.1 million decrease was primarily due to continued portfolio management.

Selling, General and Administrative

Selling, general and administrative expenses were \$73.7 million and \$70.9 million for the three months ended September 23, 2017 and September 24, 2016, respectively, which represented 12.8% and 12.6% of net revenues for each respective period. The \$2.8 million increase was primarily attributable to an increase in employee related expenses.

Severance and Restructuring Expenses

Severance and restructuring expenses were \$5.4 million and \$10.0 million for the three months ended September 23, 2017 and September 24, 2016, respectively, which represented 0.9% and 1.8% of net revenues for each respective period. The \$4.6 million decrease was primarily due to the timing of reorganization of certain business units and functions and the closure of the Dallas wafer level packaging manufacturing facilities which was completed in fiscal year 2017.

Other Operating Expenses (Income), net

Other operating expenses (income), net were \$(0.8) million and \$(28.5) million during the three months ended September 23, 2017 and September 24, 2016, respectively, which represented 0.1% and 5.1% of net revenues for each respective period. This net decrease in other operating income of \$27.6 million was primarily driven by the \$26.6 million gain on the sale of micro-electromechanical systems (MEMS) business line in the first quarter of fiscal year 2017.

Provision for Income Taxes

In the three months ended September 23, 2017 and September 24, 2016, we recorded an income tax provision of \$26.4 million and \$27.6 million, respectively. Our effective tax rate for the three months ended September 23, 2017 and September 24, 2016 was 14.6% and 16.7%, respectively.

Our federal statutory tax rate is 35%. The effective tax rate for the three months ended September 23, 2017 was lower than the statutory rate primarily due to earnings of foreign subsidiaries, generated primarily by our international operations managed in Ireland, that were taxed at lower rates, and a \$2.0 million discrete benefit for excess tax benefits generated by the settlement of share-based awards, partially offset by share-based compensation for which no tax benefit is expected and interest accruals for unrecognized tax benefits.

The effective tax rate for the three months ended September 24, 2016 was lower than the statutory rate primarily due to earnings of foreign subsidiaries, generated primarily by the Company's international operations managed in Ireland,

that were taxed at lower rates, and a \$3.3 million discrete benefit for excess tax benefits generated by the settlement of share-based awards, partially offset by share-based compensation for which no tax benefit is expected.

BACKLOG

At September 23, 2017 and June 24, 2017, our current quarter backlog was approximately \$426.0 million and \$389.1 million, respectively. In backlog, we include orders with customer request dates within the next three months. As is customary in the semiconductor industry, these orders may be canceled in most cases without penalty to customers. Accordingly, we believe that our backlog is not a reliable measure of future revenues. All backlog numbers have been adjusted for estimated future U.S. distribution ship and debit pricing adjustments.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

Financial Condition

Cash flows were as follows:

	Three Months Ended	
	September 23, 2017	September 24, 2016
	(in thousands)	
Net cash provided by (used in) operating activities	\$219,705	\$ 123,402
Net cash provided by (used in) investing activities	(711,657)	73
Net cash provided by (used in) financing activities	(177,009)	(136,631)
Net increase (decrease) in cash and cash equivalents	\$(668,961)	\$(13,156)
Operating activities		

Cash provided by operating activities is net income adjusted for certain non-cash items and changes in certain assets and liabilities.

Cash provided by operating activities was \$219.7 million in the three months ended September 23, 2017, an increase of \$96.3 million compared with the three months ended September 24, 2016. This increase was primarily driven by higher net income driven by increased profitability, a decrease in accounts receivable due to the timing of collections, and higher income taxes payable.

Investing activities

Investing cash flows consist primarily of capital expenditures, net investment purchases and maturities.

Cash used in investing activities increased by \$711.7 million for the three months ended September 23, 2017 compared with the three months ended September 24, 2016. The increase was due primarily to a \$641.1 million increase in purchases of available-for-sale-securities during the three months ended September 23, 2017.

Financing activities

Financing cash flows consist primarily of debt issuance, repurchases of common stock and payment of dividends to stockholders.

Net cash used in financing activities increased by approximately \$40.4 million for the three months ended September 23, 2017 compared to the three months ended September 24, 2016. The increase was primarily due to \$17.6 million in higher repurchases of our common stock, \$14.8 million lower proceeds from stock options exercised in the three months ended September 23, 2017, and a \$7.8 million increase in quarterly dividends.

Liquidity and Capital Resources

Long Term Debt Levels

On June 15, 2017, the Company completed a public offering of \$500 million aggregate principal amount of the Company's 3.450% senior unsecured and unsubordinated notes due on June 15, 2027 ("2027 Notes").

On November 21, 2013, the Company completed a public offering of \$500 million aggregate principal amount of the Company's 2.5% senior unsecured and unsubordinated notes due on November 15, 2018 ("2018 Notes").

On March 18, 2013, the Company completed a public offering of \$500 million aggregate principal amount of the Company's 3.375% senior unsecured and unsubordinated notes due on March 15, 2023 ("2023 Notes").

The estimated fair value of outstanding debt is \$1,518 million and \$1,516 million as of September 23, 2017 and June 24, 2017, respectively.

Off-Balance-Sheet Arrangements

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As of September 23, 2017, the Company did not have any material off-balance-sheet arrangements, as defined in Item 303(a)(4)(ii) of SEC Regulation S-K.

ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company's market risk has not changed materially from the interest rate and foreign currency risks disclosed in Item 7A of the Company's Annual Report on Form 10-K for the fiscal year ended June 24, 2017.

The impact of inflation and changing prices on the Company's net revenues and on operating income during the three months ended September 23, 2017 and September 24, 2016 was not material.

ITEM 4: CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our chief executive officer ("CEO") and our chief financial officer ("CFO"), evaluated the effectiveness of our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934 (the "Exchange Act") as of September 23, 2017. Our management, including the CEO and the CFO, has concluded that the Company's disclosure controls and procedures were effective as of September 23, 2017. The purpose of these controls and procedures is to ensure that information required to be disclosed in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules, and that such information is accumulated and communicated to our management, including our CEO and our CFO, to allow timely decisions regarding required disclosures.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended September 23, 2017 that have materially affected or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on the Effectiveness of Internal Controls

A system of internal control over financial reporting is intended to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements in accordance with GAAP and no control system, no matter how well designed and operated, can provide absolute assurance. The design of any control system is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Because of its inherent limitations, internal control over financial reporting may not prevent or detect financial statement errors and misstatements. Also, projection of any evaluation of effectiveness to future periods is subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

PART II. OTHER INFORMATION

ITEM 1: LEGAL PROCEEDINGS

The information set forth above under Part I, Item 1, Note 11 “Commitments and Contingencies” to the Condensed Consolidated Financial Statements is incorporated herein by reference.

ITEM 1A: RISK FACTORS

A description of risks associated with our business, financial condition and results of our operations is set forth in Item 1A - Risk Factors of our Annual Report on Form 10-K for the fiscal year ended June 24, 2017, which is incorporated herein by reference.

ITEM 2: UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

On July 25, 2013, the Board of Directors authorized the Company to repurchase up to \$1 billion of the Company’s common stock from time to time at the discretion of the Company’s management. This stock repurchase authorization was cancelled by the Company’s board of directors and suspended by the new repurchase authorization on July 20, 2017 as further described below.

On July 20, 2017, the board of directors of the Company authorized the repurchase of up to \$1.0 billion of the Company’s common stock. The stock repurchase authorization does not have an expiration date and the pace of repurchase activity will depend on factors such as current stock price, levels of cash generation from operations, cash requirements, and other factors. The Company’s prior repurchase authorization has been cancelled and superseded by this new repurchase authorization.

The following table summarizes the activity related to stock repurchases for the three months ended September 23, 2017:

Issuer Repurchases of Equity Securities (in thousands, except per share amounts)				
	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs
Jun 25, 2017 - Jul 22, 2017	576	\$ 45.75	576	\$ 1,000,000
Jul 23, 2017 - Aug 19, 2017	628	\$ 45.30	628	\$ 971,550
Aug 20, 2017 - Sep 23, 2017	454	\$ 45.18	454	\$ 951,033
Total for the quarter	1,658	\$ 45.42	1,658	\$ 951,033

In the fiscal quarter ended September 23, 2017, the Company repurchased approximately 1.7 million shares of its common stock for approximately \$75.3 million. As of September 23, 2017, the Company had remaining authorization of \$951.0 million for future share repurchases. The number of shares to be repurchased and the timing of such repurchases will be based on several factors, including the price of the Company’s common stock and general market

and business conditions.

ITEM 3: DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4: MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5: OTHER INFORMATION

In August 2017, the Company's Change In Control Employee Severance Plan for U.S. Based Employees, Change in Control Employee Severance Plan for Non-U.S. Based Employees, and Equity Award Policy Acceleration of Vesting in the Event of a Change in Control for Employees Based Outside the U.S. (collectively, the "Change in Control Plans") were modified for Level II-V Employees (as defined in the Change of Control Plans) with respect to the one time cash payment, benefit continuation, and acceleration of equity award vesting. The Change in Control Plans are filed in their entirety as Exhibits 10.4, 10.5, and 10.6 to this Quarterly Report on Form 10-Q.

ITEM 6: EXHIBITS

(a) Exhibits

- 10.1 Form of Global Performance Share Agreement
- 10.2 Form of Global Restricted Stock Unit Agreement
- 10.3 Form of Global Employee Stock Purchase Plan Agreement
- 10.4 Change In Control Employee Severance Plan for U.S. Based Employees
- 10.5 Change In Control Employee Severance Plan for Non-U.S. Based Employees
- 10.6 Equity Award Policy Acceleration Of Vesting In The Event of A Change In Control For Employees Based Outside The U.S.
- 31.1 Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act
- 31.2 Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act
- 32.1 Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350 (1)
- 32.2 Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350 (1)
- 101.INS XBRL Instance Document
- 101.SCH XBRL Taxonomy Extension Schema Document
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document
- 101.LAB XBRL Taxonomy Extension Label Linkbase Document
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

(1) This exhibit is being furnished rather than filed and shall not be deemed incorporated by reference into any filing, in accordance with Item 601 of Regulation S-K.

Attached as Exhibit 101 to this report are the following formatted in XBRL (Extensible Business Reporting Language): (i) Condensed Consolidated Statements of Income for the three months ended September 23, 2017, (ii) Condensed Consolidated Balance Sheets at September 23, 2017 and June 24, 2017, (iii) Condensed Consolidated Statement of Comprehensive Income for the three months ended September 23, 2017, (iv) Condensed Consolidated Statements of Cash Flows for the three months ended September 23, 2017 and (v) Notes to Condensed Consolidated Financial Statements.

In accordance with Rule 406T of Regulation S-T, the XBRL-related information in Exhibit 101 to this Quarterly Report on Form 10-Q is deemed not filed or part of a registration statement or prospectus for purposes of Sections 11

or 12 of the Securities Act, is deemed not filed for purposes of Section 18 of the Exchange Act, and otherwise is not subject to liability under these sections.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the report has been signed below by the following person on behalf of the registrant and in the capacity indicated.

October 20, 2017 MAXIM INTEGRATED PRODUCTS, INC.

By:/s/ Sumeet Gagneja

Sumeet Gagneja
Vice President, Chief Accounting Officer
(Chief Accounting Officer and Duly Authorized Officer)