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

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 December 27, 2008

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 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

Class: Common Stock, $0.001	Outstanding at January 23, 2009 304,122,747 shares

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)

	December 27, 2008	June 28, 2008
	(in thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 718,200	$ 1,013,119
Short-term investments	207,259	205,079
Total cash, cash equivalents and short-term investments	925,459	1,218,198
Accounts receivable, net	213,370	272,029
Inventories	251,661	272,421
Deferred tax assets	214,430	253,490
Income tax refund receivable	73,096	14,411
Other current assets	17,681	16,012
Total current assets	1,695,697	2,046,561
Property, plant and equipment, net	1,404,233	1,485,200
Other assets	110,052	176,629
TOTAL ASSETS	$ 3,209,982	$ 3,708,390
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 81,657	$ 79,673
Income taxes payable	832	825
Accrued salary and related expenses	146,584	249,079
Accrued expenses	43,697	68,131
Deferred income on shipments to distributors	20,597	21,447
Total current liabilities	293,367	419,155
Other liabilities	27,625	30,791
Income taxes payable	113,107	110,633
Deferred tax liabilities	34,793	-
Total liabilities	468,892	560,579
Commitments and contingencies (Note 10)		
Stockholders' equity:		
Common stock and capital in excess of par value	304	251,799
Retained earnings	2,742,567	2,901,139
Accumulated other comprehensive loss	(1,781)	(5,127)
Total stockholders' equity	2,741,090	3,147,811
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	$ 3,209,982	$ 3,708,390

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended		Six Months Ended	
	December 27, 2008	**December 29, 2007**	**December 27, 2008**	**December 29, 2007**
	(Amounts in thousands, except per share data)			
Net revenues	$ 410,675	$ 540,025	$ 911,879	$ 1,064,106
Cost of goods sold (1)	211,590	204,320	421,244	407,855
Gross margin	199,085	335,705	490,635	656,251
Operating expenses:				-
Research and development (1)	144,283	138,347	283,198	298,332
Selling, general and administrative (1)	64,124	41,636	104,367	85,098
In process research & development	3,900	-	3,900	-
Impairment of long-lived assets	43,769	-	51,112	-
Severance and restructing expenses	13,597	-	17,703	2,350
Other operating expenses, net	10,252	15,145	17,610	20,355
Total operating expenses	279,925	195,128	477,890	406,135
Operating (loss) income	(80,840)	140,577	12,745	250,116
Interest income and other, net	7,385	21,926	16,486	39,280
(Loss) income before (benefit) provision for income taxes	(73,455)	162,503	29,231	289,396
(Benefit) provision for income taxes	(34,671)	55,483	448	98,750
Net (loss) income	$ (38,784)	$ 107,020	$ 28,783	$ 190,646
(Loss) earnings per share:				
Basic	$ (0.12)	$ 0.33	$ 0.09	$ 0.59
Diluted	$ (0.12)	$ 0.33	$ 0.09	$ 0.58
Shares used in the calculation of (loss) earnings per share:				
Basic	312,718	320,553	316,635	320,553
Diluted	312,718	326,284	318,725	327,913
Dividends declared per share	$ 0.200	$ 0.188	$ 0.400	$ 0.376
(1) Includes stock-based compensation charges as follows:				
Cost of goods sold	$ 30,834	$ 11,668	$ 42,754	$ 27,330
Research and development	33,432	22,799	52,851	66,603
Selling, general and administrative	19,672	7,249	25,894	20,436

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Six Months Ended	
	December 27, 2008	December 29, 2007
	(in thousands)	
Cash flows from operating activities:		
Net income	$ 28,783	$ 190,646
Adjustments to reconcile net income to net cash provided by operating activities:		
Stock based compensation	121,498	114,369
Depreciation and amortization	97,674	64,824
Deferred taxes	168,574	18,260
Tax shortfall related to stock based compensation	(149,082)	(3,346)
Excess tax benefit related to stock based compensation	(461)	(467)
In process research & development	3,900	-
Impairment of long-lived assets	51,112	-
Loss (gain) from sale of property, plant and equipment	1,887	(9,558)
Gain from sale of equity investments	(529)	-
Changes in assets and liabilities:		
Accounts receivable	58,936	(41,677)
Inventories	14,209	7,397
Other current assets	(60,726)	(21,147)
Accounts payable	(124)	(5,952)
Income tax payable	2,481	(10,018)
Deferred income on shipments to distributors	(850)	(1,391)
Accrued liabilities - goodwill and tender offer payments above fair value	(37,041)	(23,753)
All other accrued liabilities	(70,762)	(37,468)
Net cash provided by operating activities	229,479	240,719
Cash flows from investing activities:		
Purchase of property, plant and equipment	(67,535)	(133,683)
Proceeds from sale of property, plant, and equipment	947	14,158
Restricted cash	-	(14,158)
Other non-current assets	(1,246)	18,030
Acquisition, net of cash assumed	(30,310)	(64,123)
Purchases of available-for-sale securities	(2,740)	(111,010)
Proceeds from sales/maturities of available-for-sale securities	4,675	687,652
Net cash (used in) provided by investing activities	(96,209)	396,866
Cash flows from financing activities:		
Excess tax benefit related to stock based compensation	461	467
Mortgage liability	(20)	(20)
Goodwill payments on expiring options and tender offer payments	(11,750)	(70,363)
Cash settlement of vested restricted stock units	(1,910)	(2,366)
Payouts under the RSU loan program	(35,578)	(14,738)
Dividends paid	(126,414)	(120,207)
Repayment of notes payable	(2,673)	-
Cash used to net share settle equity awards	(15,174)	-
Common stock repurchase	(235,131)	-
Net cash used in financing activities	(428,189)	(207,227)
Net (decrease) increase in cash and cash equivalents	(294,919)	430,358
Cash and cash equivalents:		

Beginning of period	1,013,119	577,068
End of period	$ 718,200	$ 1,007,426
Supplemental disclosures of cash flow information:		
Cash paid, net during the period for income taxes	$ 37,160	$ 118,102
Noncash investing and financing activities:		
Accounts payable related to property, plant and equipment purchases	$ 22,068	$ 24,176

See accompanying Notes to Condensed Consolidated Financial Statements.

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

NOTE 1: BASIS OF PRESENTATION

The accompanying unaudited condensed interim consolidated financial statements of Maxim Integrated Products, Inc. and all of its majority-owned subsidiaries (collectively, the "Company" or "Maxim") included herein have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"). Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles of the United States of America ("GAAP") have been condensed or omitted pursuant to applicable rules and regulations. In the opinion of management, all adjustments considered necessary for fair presentation have been included. The year-end condensed balance sheet data was derived from audited financial statements but does not include all disclosures required by GAAP. The results of operations for the three months and six months ended December 27, 2008 are not necessarily indicative of the results to be expected for the entire year. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in the Annual Report on Form 10-K for the fiscal year ended June 28, 2008.

The Company has a 52-to-53-week fiscal year that ends on the last Saturday in June. Accordingly, every sixth or seventh fiscal year will be a 53-week fiscal year. Fiscal year 2009 is a 52-week fiscal year.

Reclassifications

Certain prior-year amounts in the Condensed Consolidated Financial Statements and Notes to Condensed Consolidated Financial Statements have been reclassified to conform to the current period's presentation.

The reclassifications included the following:

- The Company reclassified certain expense items from cost of goods sold, research and development and selling, general and administrative expenses into other operating expenses, net. These costs include legal and accounting fees directly attributable to the Company's restatement, and cost reductions due to the reversal of accruals established in prior years for foreign payroll taxes, interest and penalties related to the misdating of option grants and exercises. These foreign payroll tax accruals were reversed due to the expiration of the statute of limitations in various foreign jurisdictions.

- The reclassification of severance and restructuring expenses incurred related to the transfer of manufacturing production from the Company's San Jose, California facility to an outsourced Japanese manufacturing facility, Epson's Sakata, Japan facility. These expenses were previously included in cost of goods sold. The Company recognized severance and restructuring expenses in accordance with the provisions of Financial Statement Standards Board ("FASB") Statement No. 146, *Accounting for Costs Associated with Exit or Disposal Activities.*

The impact of the reclassifications for the three months and six months ended December 29, 2007 was as follows:

	Three Months Ended			Six Months Ended		
	December 29, 2007 (as reported)	**Adjustments**	**December 29, 2007 (revised)**	**December 29, 2007 (as reported)**	**Adjustments**	**December 29, 2007 (revised)**
	(Amounts in thousands)			(Amounts in thousands)		
Cost of goods sold	$ 204,409	$ (89)	$ 204,320	$ 410,924	$ (3,069)	$ 407,855

Gross margin	335,616	89	335,705	653,182	3,069	656,251
Research and development	138,579	(232)	138,347	289,412	8,920	298,332
Selling, general and administrative	56,460	(14,824)	41,636	113,654	(28,556)	85,098
Severance and restructing expenses	-	-	-	-	2,350	2,350
Other operating expenses, net	-	15,145	15,145	-	20,355	20,355
Total operating expenses	$ 195,039	$ 89	$ 195,128	$ 403,066	$ 3,069	$ 406,135

These reclassifications did not result in changes to previously reported operating income or net income.

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

NOTE 2: RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In the first quarter of the Company's fiscal year 2009, Maxim adopted Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value in accordance with U.S. GAAP and expands disclosures about fair value measurements. It also establishes a fair value hierarchy used in fair value measurements and expands the required disclosures of assets and liabilities measured at fair value. The adoption of SFAS 157 did not have a significant impact on the Company's consolidated financial condition, results of operations and liquidity.

In February 2008, the FASB issued FASB Staff Position (FSP) No. 157-2, *Effective Date of FASB Statement No. 157* ("FSP 157-2"). FSP 157-2 delays the effective date of SFAS 157 to fiscal 2010 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The Company is currently evaluating the impact of the adoption of those provisions of SFAS 157 on its consolidated financial condition and results of operations.

In October 2008, the FASB issued FSP 157-3 *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Activ*e (FSP 157-3). FSP 157-3 clarifies the application of SFAS No. 157 in a market that is not active. FSP 157 addresses key considerations, such as entity's own assumptions when relevant observable inputs do not exist, observable market information when the market is not active, the use of market quotes when assessing the relevance of observable and unobservable inputs available. FSP 157-3 is effective upon issuance, including prior periods for which financial statements have been issued. The adoption of FSP 157-3 did not have a significant impact on the Company's consolidated financial statements or the fair values of our financial assets and liabilities.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements — an amendment of ARB No. 51* ("SFAS 160"). SFAS 160 amends Accounting Research Bulletin No. 51, *Consolidated Financial Statements*, to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. SFAS 160 improves the relevance, comparability and transparency of financial statements and eliminates diversity in practice that currently exists in accounting for transactions between an entity and noncontrolling interests. This standard is effective for annual periods beginning after December 15, 2008. Earlier adoption is prohibited. The adoption of SFAS 160 is not expected to have a material effect on the Company's consolidated financial position, results of operations and cash flows.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations* ("SFAS 141(R)") which replaces SFAS No. 141, *Business Combinations.* SFAS 141(R) requires the acquiring entity in a business combination to recognize all (and only) the assets acquired and liabilities assumed in the transaction; establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed; and requires the acquirer to disclose to investors and other users all of the information they need to evaluate and understand the nature and financial effect of the business combination. This standard is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The Company is currently evaluating the impact of adopting SFAS 141(R) on the Company's consolidated financial position and results of operations.

In December 2007, the FASB ratified EITF Issue No. 07-1, *Accounting for Collaborative Arrangements* ("EITF 07-01"). EITF 07-1 provides guidance on the classification, income statement presentation and disclosure associated with collaborative arrangements involving parties considered to be active participants to an activity and are exposed to significant risks and rewards which are dependent on the commercial success of the activity. EITF 07-1 is effective for fiscal years beginning after December 15, 2008. The adoption of EITF 07-01 is not expected to have a material impact on the Company's consolidated financial position, results of operations or cash flows.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities — an amendment of SFAS No. 133* ("SFAS 161"), which changes the disclosure requirements for derivative instruments and hedging activities. SFAS 161 requires the Company to provide enhanced disclosures about (a) how and why the Company uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities,* and its related interpretations, and (c) how derivative instruments and related hedged items affect our financial position, financial performance and cash flows. These disclosure requirements are effective for fiscal years and interim periods beginning after November 15, 2008. The Company is currently evaluating the impact of adopting SFAS 161 on its consolidated financial position, results of operations and cash flows.

In April 2008, the FASB issued FSP FAS 142-3, *Determination of the Useful Life of Intangible Assets* ("FSP 142-3"). FSP 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, *Goodwill and Other Intangible Assets* ("SFAS 142"). FSP 142-3 improves the consistency between the useful life of a recognized intangible asset under SFAS 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS 141(R) and other applicable accounting literature. FSP 142-3 is effective for financial statements issued for fiscal years beginning after December 15, 2008 and interim periods within those fiscal years. The Company does not believe that the adoption of FSP FAS 142-3 will have a material impact on its results of operations or financial condition.

In May 2008, the FASB issued SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles* ("SFAS 162"). SFAS 162 identifies the sources of accounting consistent with GAAP. SFAS 162 is effective sixty days following the SEC's approval of the Public Company Accounting Oversight Board's amendments to AU Section 411 on September 16, 2008, *The Meaning of `Present fairly in conformity with generally accepted accounting principles.'* The Company is currently evaluating the potential impact, if any, of the adoption of SFAS 162 on its consolidated financial statements.

In June 2008, the FASB issued FASB Staff Position No. EITF 03-6-1 ("FSP EITF 03-6-1"), *Determining Whether Instruments Granted in Share-Based Payments Transactions Are Participating Securities*. FSP EITF 03-6-1 requires that instruments granted in share-based payment transactions, that qualify as participating securities, should be included in the earnings allocation in computing earnings per share under the two-class method described in FASB Statement No. 128, *Earnings per Share*. FSP EITF 03-6-1 is effective for fiscal years beginning after December 15, 2008 with all prior period EPS data being adjusted retrospectively. Early adoption is not permitted. The Company is currently evaluating the impact of adopting FSP EITF 03-6-1 on the Company's calculation of earnings per share.

NOTE 3: FAIR VALUE MEASUREMENTS

The Company adopted the provisions of SFAS 157 for its financial assets and liabilities at the beginning of its fiscal year 2009. SFAS 157 defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. SFAS 157 establishes 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. SFAS No. 157 establishes three levels of inputs that may be used to measure fair value:

Level 1

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

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

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 bank certificates of deposit and foreign currency forward contracts.

Level 3

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

The Company did not hold any Level 3 assets and liabilities during the second quarter of its fiscal year 2009.

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

As of December 27, 2008, assets and liabilities measured at fair value on a recurring basis consist of the following:

	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Total Fair Value as of Dec. 27, 2008
		(in thousands)	
Money market fund deposits (1)	$ 650,583	$ -	$ 650,583
U.S. Treasury Notes (2)	207,259	-	207,259
Bank time deposits (1)	-	2,114	2,114
Foreign currency derivative contracts (net)	-	664	664
Total assets measured at fair value	$ 857,842	$ 2,778	$ 860,620

(1) Included in cash and cash equivalents in the accompanying condensed consolidated balance sheets as of December 27, 2008

(2) Included in short-term investments in the accompanying condensed consolidated balance sheets as of December 27, 2008

NOTE 4: STOCK-BASED COMPENSATION

The following table shows total stock-based compensation expense by type of award, and resulting tax effect, included in the Condensed Consolidated Statements of Operations for the three months and six months ended December 27, 2008 and December 29, 2007:

Stock-based compensation expense by type of award

	Three Months Ended		Six Months Ended	
	December 27, 2008	December 29, 2007	December 27, 2008	December 29, 2007
	(in thousands)			
Cost of goods sold				
Stock options	$ 23,785	$ 7,960	$ 29,900	$ 19,107
Restricted stock units	7,049	3,708	12,854	8,223
	30,834	11,668	42,754	27,330
Research and development expense				
Stock options	21,978	13,678	29,713	46,142
Restricted stock units	11,454	9,121	23,138	20,461
	33,432	22,799	52,851	66,603
Selling, general and administrative expense				
Stock options	15,336	4,638	17,746	14,935
Restricted stock units	4,336	2,611	8,148	5,501

	19,672	7,249	25,894	20,436
Total stock-based compensation expense				
Stock options	61,099	26,276	77,359	80,184
Restricted stock units	22,839	15,440	44,140	34,185
Pre-tax stock-based compensation expense	83,938	41,716	121,499	114,369
Less: income tax effect	29,175	14,550	41,974	40,147
Net stock-based compensation expense	$ 54,763	$ 27,166	$ 79,525	$ 74,222

Compensation cost capitalized as part of inventory as of December 27, 2008 and June 28, 2008 was $6.8 million and $13.7 million, respectively.

Modifications and Settlements

Tender Offer

In November 2008, the Company offered to purchase from employees up to 52.8 million outstanding stock options for cash payments totaling $22.4 million. The amount of the cash payment was determined based on the Black-Scholes value of the eligible options utilizing the average stock price over the 20 day period preceding the date of the offer.

In December 2008 upon closing of the offer a total of 31.9 million options were tendered requiring the Company to remit an aggregate payment totaling $13.6 million. The Company accounted for the offer as a settlement under Statement of Financial Accounting Standards No. SFAS 123(R), *Share-Based Payment,* which resulted in the recognition of $75.9 million in stock-based compensation expenses consisting of $8.7 million in

additional expense from settlements above fair value and $67.2 million associated with the unamortized compensation expenses on the previously unvested tendered options. Settlement of the tendered options reduced deferred tax assets by $129.4 million, generated a tax benefit of $4.7 million, and resulted in a $124.7 million charge to additional paid in capital for the difference between the deferred tax assets and tax benefits associated with the tendered options.

As a result of the significant impact to the Company's option plans from the tender offer, the Company analyzed its estimated forfeiture rate for its remaining outstanding options and recorded a reversal of stock based compensation expenses of $52.2 million to recognize actual forfeitures which have exceeded the Company's previous forfeiture estimates.

Officer Option Repurchase

In December 2008 the Company repurchased 6.2 million outstanding stock options from officers for $1.8 million payable in installments over the greater of two years or the remaining vesting period associated with the options prior to their repurchase. The Company accounted for the repurchase as a modification under SFAS 123(R) resulting in incremental compensation of $1.1 million which will be recognized over the payment period.

Share-Based Compensation and Other Adjustments Resulting From the Blackout Period

On September 8, 2006, the SEC was notified that the Company would delay filing its Annual Report on Form 10-K for the fiscal year ended June 24, 2006 as a result of the then ongoing stock option investigation into the Company's historical stock option granting practices. As a result of such delay, the Company suspended the issuance of shares upon exercise of stock options, vesting of restricted stock units and purchases of stock under the Employee Stock Participation Plan until the Company became current with all of its required SEC filings and its registration statements on Form S-8 became effective ("Blackout Period"). The Company instituted multiple programs in an attempt to compensate employees during the Blackout Period, as described below. The Company became current in its SEC filings, and its registration statements on Form S-8 became effective on September 30, 2008.

RSU Loan Program

In October 2006, the Company offered certain domestic employees an opportunity to receive cash in the form of a non-recourse loan ("RSU Loan") for common stock that they would have otherwise been able to receive in settlement for Restricted Stock Units that vested during the Blackout Period. The program was not offered to executive officers or the members of the Company's Board of Directors. Employees accepting the offer were also entitled to additional shares of common stock if the Company's stock price appreciates ("SAR") between the vesting date and the settlement date at the end of the Blackout Period. Employees foregoing the loan would receive shares of common stock at the conclusion of the Blackout Period. The Company also offered to cash-settle restricted stock units vesting during the Blackout Period held by foreign employees. The aforementioned loan offers were considered modifications of the restricted stock units triggering a change in the classification from equity to liability for all eligible awards vesting during the Blackout Period. The Company recorded a reclassification from additional paid-in-capital to accrued salary and related expenses of $19.4 million on the modification date and incremental compensation expenses of $2.2 million from the modifications. Vesting of eligible awards and changes in stock price resulted in additional reclassifications from additional paid-in-capital to accrued salary and related expenses and additional compensation expenses in periods they occur. The Company made cash payments of $35.6 million and $14.7 million pursuant to the RSU loan program and $1.9 million and $2.4 million for settlement of RSUs held by foreign employees during the six months ended December 27, 2008 and December 29, 2007, respectively, as a result of this program.

The RSU Loan Program terminated on September 30, 2008, the date when the Company became current with all of its required SEC filings and its registration statements on Form S-8 became effective ("Blackout Period").

In connection with the termination of the program, the Company issued 1.1 million shares for individuals who did not participate in the programs, representing the total number of shares vested less shares withheld for applicable employee withholding taxes. This resulted in a net reclassification of $28.0 million from accrued salary and related expenses to common stock and capital in excess of par value.

As a result of the decline of the Company's stock price and pursuant to the terms of the RSU loan program, the Company forgave previously issued RSU loans and remitted a total of $27.4 million associated employee taxes included in payouts under RSU loan program shown in the financing activities within the Condensed Consolidated Statement of Cash Flows during the six months ended December 27, 2008.

Extension of Options that Expire after Reaching 10 Year Contractual Term and Cash Settlements of Such Expired Options

In September 2006, the Company approved the extension of the terms of vested stock options that expire during the Blackout Period as a result of the expiration of the 10 year contractual term. The extension was considered a modification under SFAS 123(R). The incremental compensation expense of the modification was based on the fair value of the option at the modification date after the extension compared to the fair value of the options prior to modification. The Company recognized additional compensation expense totaling $118.9 million for 8.3 million options in the three months ended September 23, 2006. The stock-based compensation expense adjustment was based on modified vested options held by employees that expired during the period from September 22, 2006 through the end of the Blackout Period.

In September 2007, as a result of changes in NASDAQ regulations, the Company decided to cash-settle all options expiring during the Blackout Period ("goodwill payment") based on the price at which 10% of the daily close prices of the Company's common stock fall above this price for trading days from August 7, 2006 (the date on which the Company initiated a trading blackout on officers and other individuals) through the expiration date of the option. The cash payment was subject to the option holder executing a release of all claims relating to the option. The goodwill payment modification changed the classification of the associated awards from equity to liability instruments. The modification resulted in a reclassification from additional paid-in-capital to accrued salaries and related expenses of $126.8 million and incremental compensation expenses of $27.5 million. At the end of each period, the Company recognized changes in fair value of the options in its Consolidated Statements of Operations in the period of change until the options are settled.

On September 26, 2008, the Compensation Committee of the Board of Directors offered certain individuals, including certain officers of the Company, holding vested stock options that expire due to reaching their maximum 10-year terms in October 2008, certain cash goodwill payments contingent upon employee acceptance and signing of a release. The Company cash settled options to purchase 1.1 million option shares that expired in October 2008 for employees that accepted the offer. The cash settlement resulted in a reduction of additional paid in capital of $0.8 million for the fair value of the underlying options on the settlement dates and incremental compensation expense of $18.6 million during three months ended December 27, 2008.

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STOCK OPTION PLANS

Stock Options

The following table summarizes outstanding, exercisable and vested and expected to vest stock options as of December 27, 2008 and their activity during fiscal year 2009:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in Years)	Aggregate Intrinsic Value(1)
Balance at June 28, 2008	76,906,882	$35.59	[redacted]	
Options Granted	8,248,379	13.06		
Options Exercised	(2,377)	11.39		
Options Cancelled	(40,915,184)	35.77		
Balance at December 27, 2008	44,237,700	$31.81		
Exercisable, December 27, 2008	29,359,112	$35.13	3.3	$ -
Vested and expected to vest, December 27, 2008	42,951,702	$32.13	4.3	$ 63,746

(1) Aggregate intrinsic value for stock options represents the difference between exercise price and the closing price per share of the Company's common stock on December 27, 2008, multiplied by the number of stock options outstanding, exercisable, or vested and expected to vest as of December 27, 2008.

As of December 27, 2008, there was $122.1 million of unrecognized stock compensation related to 14.9 million unvested stock options which is expected to be recognized over a weighted average period of approximately 3.0 years.

Fair Value

The fair value of share-based awards granted to employees was estimated using a Black-Scholes option valuation model that used the following weighted-average assumptions:

	Stock Option Plan		Stock Option Plan	
	Three Months Ended		Six Months Ended	
	December 27, 2008	December 29, 2007	December 27, 2008	December 29, 2007
Expected holding period (in years)	6.3	6.3	6.3	6.4
Risk-free interest rate	2.9%	4.1%	2.9%	4.5%
Expected stock price volatility	40%	45%	40%	38%
Dividend yield	4.1%	2.9%	4.0%	2.6%

The fair value of each option is estimated on the date of grant using the Black-Scholes option valuation model. Expected volatilities are based on the implied volatilities from traded options of the Company's common stock before the Company's common stock was delisted from NASDAQ on October 2, 2007. Subsequent to the Company's delisting, the Company began analyzing its expected volatilities based on historical volatilities from its traded common stock over a period equal to the expected term. The Company analyzes historical exercise patterns of relatively homogeneous groups of employees to estimate expected holding period. 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. As required by SFAS 123(R), the Company also estimates forfeitures at the time of grant and makes revisions if the estimates change or the actual forfeitures differ from those estimates.

The weighted-average fair value of stock options granted was $3.55 and $9.37 per share for three months ended December 27, 2008 and December 29, 2007, respectively. The weighted-average fair value of stock options granted was $3.62 and $9.71 per share for six months ended December 27, 2008 and December 29, 2007, respectively.

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Restricted Stock Units

The following table summarizes outstanding and expected to vest restricted stock units ("RSUs") as of December 27, 2008 and their activity during fiscal year 2009:

	Number of Shares	Weighted Average Remaining Contractual Term (in Years)	Aggregate Intrinsic Value(1)
Balance at June 28, 2008	10,266,201	[redacted]	[redacted]
Restricted stock units granted	9,481,094		
Restricted stock units released	(5,874,941)		
Restricted stock units cancelled	(315,020)		
Balance at December 27, 2008	13,557,334	1.8	$166,890,782
Vested and expected to vest, December 27, 2008	12,326,545	1.7	$151,739,779

(1) Aggregate intrinsic value for RSUs represents the closing price per share of the Company's stock on December 27, 2008, multiplied by the number of RSUs outstanding or expected to vest as of December 27, 2008.

The Company withheld 0.9 million shares totaling $15.2 million related to employee withholding taxes based on the value of the RSUs on their vesting date as determined by the Company's closing stock price for three months ended December 27, 2008. The total payments for the employees' tax obligations to the taxing authorities are reflected as financing activities within the Condensed Consolidated Statement of Cash Flows.

As of December 27, 2008, there was $218.6 million of unrecognized compensation expense related to 13.6 million unvested RSUs, which is expected to be recognized over a weighted average period of approximately 3.2 years.

Please refer to Note 19 regarding the retirement and cancellation of 27 million options to purchase shares of common stock that would otherwise be available for the grant of stock options, shares of restricted stock and restricted stock units.

NOTE 5: INVENTORIES

The components of inventories consist of:

	December 27, 2008	June 28, 2008
	(in thousands)	
Raw materials	$ 16,372	$ 16,729
Work-in-process	189,450	200,556
Finished goods	45,839	55,136
	$ 251,661	$ 272,421

Inventory write downs were $12.2 million and $8.4 million, and $20.6 million and $16.8 million for the three and six months ended December 27, 2008 and December 29, 2007, respectively.

NOTE 6: (LOSS) EARNINGS PER SHARE

Basic (loss) earnings per share are computed using the weighted average number of common shares outstanding during the period. For purposes of computing basic (loss) earnings per share, the weighted average number of outstanding common shares excludes unvested restricted stock units ("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 stock under the ESPP using the treasury stock method. As discussed in Note 4, the Company cash-settled options that expired (reached the ten year contractual term) during the Blackout Period and cash-settled vested RSUs. These options and RSUs are considered liability instruments under SFAS 123

(R) and as such are excluded from the diluted earnings per share calculation. Diluted loss per share is the same as basic loss per share as common stock equivalents are antidilutive due to the loss.

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

	Three Months Ended		Six Months Ended	
	December 27, 2008	**December 29, 2007**	**December 27, 2008**	**December 29, 2007**
	(Amounts in thousands, except per share data)			
Numerator for basic (loss) earnings per share and diluted (loss) earnings per share				
Net (loss) income	$ (38,784)	$ 107,020	$ 28,783	$ 190,646
Denominator for basic (loss) earnings per share	312,718	320,553	316,635	320,553
Effect of dilutive securities:				
Stock options and RSUs	-	5,731	2,090	7,360
Denominator for diluted (loss) earnings per share	312,718	326,284	318,725	327,913
(Loss) earningsper share:				
Basic	$ (0.12)	$ 0.33	$ 0.09	$ 0.59
Diluted	$ (0.12)	$ 0.33	$ 0.09	$ 0.58

Approximately 44.2 million and 68.2 million of the Company's stock options were excluded from the calculation of diluted earnings (loss) per share for the three months ended December 27, 2008 and December 29, 2007, respectively. Approximately 25.2 million and 63.7 million of the Company's stock options were excluded from the calculation of diluted earnings per share for the six months ended December 27, 2008 and December 29, 2007, 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 (loss) earnings per share.

NOTE 7: 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 as defined by SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information* ("SFAS 131").

The Company has fifteen operating segments which aggregate into one reportable segment under SFAS 131. Under SFAS 131, two or more operating segments may be aggregated into a single operating segment for financial reporting purposes if aggregation is consistent with the objective and basic principles of SFAS 131, 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 fifteen operating segments;

- The integrated circuits sold by each of the Company's operating segments are manufactured using similar semiconductor manufacturing processes;

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- 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 wholesale 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 SFAS 131. Geographical revenue information is based on the 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		Six Months Ended	
December 27,	**December 29,**	**December 27,**	**December 29,**