

MAXIM INTEGRATED PRODUCTS INC

Form 10-Q

May 01, 2019

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT  
OF 1934

For the quarterly period ended March 30, 2019

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, a smaller reporting company or an emerging growth 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<br>filer <input checked="" type="checkbox"/> | Accelerated filer<br><input type="checkbox"/> | Non-accelerated filer <input type="checkbox"/><br>(Do not check if a smaller<br>reporting company) | Smaller reporting<br>company <input type="checkbox"/> | Emerging growth<br>company <input type="checkbox"/> |
|----------------------------------------------------------------|-----------------------------------------------|----------------------------------------------------------------------------------------------------|-------------------------------------------------------|-----------------------------------------------------|

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. ☐

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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 April 18, 2019 there were 272,425,069 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)

|                                                                                                  | March 30,<br>2019  | June 30,<br>2018   |
|--------------------------------------------------------------------------------------------------|--------------------|--------------------|
|                                                                                                  | (in thousands)     |                    |
| <b>ASSETS</b>                                                                                    |                    |                    |
| Current assets:                                                                                  |                    |                    |
| Cash and cash equivalents                                                                        | \$1,654,563        | \$1,543,484        |
| Short-term investments                                                                           | 243,864            | 1,082,915          |
| Total cash, cash equivalents and short-term investments                                          | 1,898,427          | 2,626,399          |
| Accounts receivable, net of allowances of \$608 at March 30, 2019 and \$140,296 at June 30, 2018 | 381,152            | 280,072            |
| Inventories                                                                                      | 272,832            | 282,390            |
| Other current assets                                                                             | 24,358             | 21,548             |
| Total current assets                                                                             | 2,576,769          | 3,210,409          |
| Property, plant and equipment, net                                                               | 571,955            | 579,364            |
| Intangible assets, net                                                                           | 61,036             | 78,246             |
| Goodwill                                                                                         | 532,251            | 532,251            |
| Other assets                                                                                     | 61,843             | 51,291             |
| <b>TOTAL ASSETS</b>                                                                              | <b>\$3,803,854</b> | <b>\$4,451,561</b> |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>                                                      |                    |                    |
| Current liabilities:                                                                             |                    |                    |
| Accounts payable                                                                                 | \$86,798           | \$92,572           |
| Price adjustment and other revenue reserves                                                      | 106,011            | —                  |
| Income taxes payable                                                                             | 44,179             | 17,961             |
| Accrued salary and related expenses                                                              | 128,365            | 151,682            |
| Accrued expenses                                                                                 | 33,644             | 35,774             |
| Current portion of debt                                                                          | —                  | 499,406            |
| Total current liabilities                                                                        | 398,997            | 797,395            |
| Long-term debt                                                                                   | 992,225            | 991,147            |
| Income taxes payable                                                                             | 688,780            | 661,336            |
| Other liabilities                                                                                | 61,105             | 70,743             |
| Total liabilities                                                                                | 2,141,107          | 2,520,621          |
| Commitments and contingencies (Note 11)                                                          |                    |                    |
| Stockholders' equity:                                                                            |                    |                    |
| Common stock and capital in excess of par value                                                  | 279                | 279                |
| Retained earnings                                                                                | 1,672,938          | 1,945,646          |
| Accumulated other comprehensive loss                                                             | (10,470)           | (14,985)           |
| Total stockholders' equity                                                                       | 1,662,747          | 1,930,940          |
| <b>TOTAL LIABILITIES &amp; STOCKHOLDERS' EQUITY</b>                                              | <b>\$3,803,854</b> | <b>\$4,451,561</b> |

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<br>March 30, 2019  |                   | Nine Months Ended<br>March 31, 2019 |                   |
|-------------------------------------------------------|---------------------------------------|-------------------|-------------------------------------|-------------------|
|                                                       | March 31,<br>2018                     | March 31,<br>2018 | March 30,<br>2018                   | March 31,<br>2018 |
|                                                       | (in thousands, except per share data) |                   |                                     |                   |
| Net revenues                                          | \$542,383                             | \$648,599         | \$1,757,784                         | \$1,846,913       |
| Cost of goods sold                                    | 201,552                               | 224,653           | 613,669                             | 639,460           |
| Gross margin                                          | 340,831                               | 423,946           | 1,144,115                           | 1,207,453         |
| Operating expenses:                                   |                                       |                   |                                     |                   |
| Research and development                              | 107,075                               | 114,390           | 330,086                             | 338,886           |
| Selling, general and administrative                   | 74,116                                | 81,304            | 233,487                             | 240,308           |
| Intangible asset amortization                         | 756                                   | 876               | 2,285                               | 3,623             |
| Impairment of long-lived assets                       | —                                     | —                 | 753                                 | 892               |
| Severance and restructuring expenses                  | 1,744                                 | 2,272             | 3,917                               | 14,227            |
| Other operating expenses (income), net                | —                                     | 266               | 60                                  | (1,535 )          |
| Total operating expenses                              | 183,691                               | 199,108           | 570,588                             | 596,401           |
| Operating income                                      | 157,140                               | 224,838           | 573,527                             | 611,052           |
| Interest and other income (expense), net              | 3,318                                 | (2,534 )          | 3,244                               | (9,868 )          |
| Income before provision for income taxes              | 160,458                               | 222,304           | 576,771                             | 601,184           |
| Income tax provision (benefit)                        | 29,845                                | 28,677            | 116,843                             | 328,038           |
| Net income                                            | \$130,613                             | \$193,627         | \$459,928                           | \$273,146         |
| Earnings per share:                                   |                                       |                   |                                     |                   |
| Basic                                                 | \$0.48                                | \$0.69            | \$1.67                              | \$0.97            |
| Diluted                                               | \$0.47                                | \$0.68            | \$1.64                              | \$0.95            |
| Shares used in the calculation of earnings per share: |                                       |                   |                                     |                   |
| Basic                                                 | 273,221                               | 280,850           | 275,831                             | 281,525           |
| Diluted                                               | 276,610                               | 285,881           | 279,680                             | 286,221           |

See accompanying Notes to Condensed Consolidated Financial Statements.

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

|                                                                                                                                                           | Three Months Ended<br>March 30, 2019 |           | Nine Months Ended<br>March 31, 2019 |           |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------|-----------|-------------------------------------|-----------|
|                                                                                                                                                           | March 31, 2018                       |           | March 31, 2018                      |           |
|                                                                                                                                                           | (in thousands)                       |           |                                     |           |
| Net income                                                                                                                                                | \$130,613                            | \$193,627 | \$459,928                           | \$273,146 |
| 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 \$97, \$274, (\$131), and \$274, respectively | 1,139                                | (1,213 )  | 3,116                               | (3,433 )  |
| Change in net unrealized gains and losses on cash flow hedges, net of tax benefit (expense) of \$69, \$6, \$(241), and \$(45), respectively               | (351 )                               | (217 )    | 1,167                               | 133       |
| Change in net unrealized gains and losses on post-retirement benefits, net of tax benefit (expense) of \$(23), \$(4), \$(60), and \$(168), respectively   | 78                                   | 18        | 232                                 | (14 )     |
| Other comprehensive income (loss), net                                                                                                                    | 866                                  | (1,412 )  | 4,515                               | (3,314 )  |
| Total comprehensive income                                                                                                                                | \$131,479                            | \$192,215 | \$464,443                           | \$269,832 |

See accompanying Notes to Condensed Consolidated Financial Statements.

MAXIM INTEGRATED PRODUCTS, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY  
(Unaudited)

|                                                                | Three Months Ended March 30, 2019 |           |                 |              |                          |                      |
|----------------------------------------------------------------|-----------------------------------|-----------|-----------------|--------------|--------------------------|----------------------|
|                                                                | Common Stock                      |           | Additional      | Retained     | Accumulated              | Total                |
|                                                                | Shares                            | Par Value | Paid-In Capital | Earnings     | Other Comprehensive Loss | Stockholders' Equity |
|                                                                | (in thousands)                    |           |                 |              |                          |                      |
| Balance, December 29, 2018                                     | 274,326                           | \$ 279    | \$ —            | \$ 1,766,471 | \$ (11,336 )             | \$ 1,755,414         |
| Net income                                                     | —                                 | —         | —               | 130,613      | —                        | 130,613              |
| Other comprehensive income, net                                | —                                 | —         | —               | —            | 866                      | 866                  |
| Repurchase of common stock                                     | (2,210 )                          | —         | (18,411 )       | (98,580 )    | —                        | (116,991 )           |
| Net issuance of restricted stock units                         | 402                               | —         | (9,582 )        | —            | —                        | (9,582 )             |
| Stock options exercised                                        | 177                               | —         | 5,143           | —            | —                        | 5,143                |
| Stock-based compensation                                       | —                                 | —         | 22,850          | —            | —                        | 22,850               |
| Common stock issued under Employee Stock Purchase Plan         | —                                 | —         | —               | —            | —                        | —                    |
| Dividends paid, \$0.46 per common share                        | —                                 | —         | —               | (125,566 )   | —                        | (125,566 )           |
| Balance, March 30, 2019                                        | 272,695                           | \$ 279    | \$ —            | \$ 1,672,938 | \$ (10,470 )             | \$ 1,662,747         |
|                                                                | Nine Months Ended March 30, 2019  |           |                 |              |                          |                      |
|                                                                | Common Stock                      |           | Additional      | Retained     | Accumulated              | Total                |
|                                                                | Shares                            | Par Value | Paid-In Capital | Earnings     | Other Comprehensive Loss | Stockholders' Equity |
|                                                                | (in thousands)                    |           |                 |              |                          |                      |
| Balance, June 30, 2018                                         | 278,664                           | \$ 279    | \$ —            | \$ 1,945,646 | \$ (14,985 )             | \$ 1,930,940         |
| Net income                                                     | —                                 | —         | —               | 459,928      | —                        | 459,928              |
| Other comprehensive income, net                                | —                                 | —         | —               | —            | 4,515                    | 4,515                |
| Repurchase of common stock                                     | (8,032 )                          | —         | (82,155 )       | (354,892 )   | —                        | (437,047 )           |
| Cumulative effect adjustment for adoption of ASU 2016-01       | —                                 | —         | —               | 2,487        | —                        | 2,487                |
| Net issuance of restricted stock units                         | 980                               | —         | (23,026 )       | —            | —                        | (23,026 )            |
| Stock options exercised                                        | 699                               | —         | 18,986          | —            | —                        | 18,986               |
| Stock-based compensation                                       | —                                 | —         | 65,035          | —            | —                        | 65,035               |
| Modification of liability to equity instruments <sup>(1)</sup> | —                                 | —         | 3,471           | —            | —                        | 3,471                |
| Common stock issued under Employee Stock Purchase Plan         | 384                               | —         | 17,689          | —            | —                        | 17,689               |
| Dividends paid, \$1.38 per common share                        | —                                 | —         | —               | (380,231 )   | —                        | (380,231 )           |
| Balance, March 30, 2019                                        | 272,695                           | \$ 279    | \$ —            | \$ 1,672,938 | \$ (10,470 )             | \$ 1,662,747         |

(1) In December 2018, \$3.5 million was reclassified from accrued salaries to additional paid-in capital due to a settlement agreement relating to the expiration of stock options.

See accompanying Notes to Condensed Consolidated Financial Statements.



MAXIM INTEGRATED PRODUCTS, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY  
(Unaudited)

|                                                        | Three Months Ended March 31, 2018 |              |                                  |                      |                                               |                                  |
|--------------------------------------------------------|-----------------------------------|--------------|----------------------------------|----------------------|-----------------------------------------------|----------------------------------|
|                                                        | Common Stock                      |              | Additional<br>Paid-In<br>Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Loss | Total<br>Stockholders'<br>Equity |
|                                                        | Shares                            | Par<br>Value |                                  |                      |                                               |                                  |
|                                                        | (in thousands)                    |              |                                  |                      |                                               |                                  |
| Balance, December 30, 2017                             | 281,438                           | \$ 283       | \$ —                             | \$ 1,997,207         | \$ (11,792 )                                  | \$ 1,985,698                     |
| Net income                                             | —                                 | —            | —                                | 193,627              | —                                             | 193,627                          |
| Other comprehensive income, net                        | —                                 | —            | —                                | —                    | (1,412 )                                      | (1,412 )                         |
| Repurchase of common stock                             | (2,140 )                          | (2 )         | (18,659 )                        | (109,039 )           | —                                             | (127,700 )                       |
| Net issuance of restricted stock units                 | 387                               | 1            | (9,642 )                         | —                    | —                                             | (9,641 )                         |
| Stock options exercised                                | 294                               | 1            | 7,714                            | —                    | —                                             | 7,715                            |
| Stock-based compensation                               | —                                 | —            | 20,587                           | —                    | —                                             | 20,587                           |
| Common stock issued under Employee Stock Purchase Plan | —                                 | —            | —                                | —                    | —                                             | —                                |
| Dividends paid, \$0.42 per common share                | —                                 | —            | —                                | (117,883 )           | —                                             | (117,883 )                       |
| Balance, March 31, 2018                                | 279,979                           | \$ 283       | \$ —                             | \$ 1,963,912         | \$ (13,204 )                                  | \$ 1,950,991                     |
|                                                        |                                   |              |                                  |                      |                                               |                                  |
|                                                        | Nine Months Ended March 31, 2018  |              |                                  |                      |                                               |                                  |
|                                                        | Common Stock                      |              | Additional<br>Paid-In<br>Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Loss | Total<br>Stockholders'<br>Equity |
|                                                        | Shares                            | Par<br>Value |                                  |                      |                                               |                                  |
|                                                        | (in thousands)                    |              |                                  |                      |                                               |                                  |
| Balance, June 24, 2017                                 | 282,912                           | \$ 283       | \$ —                             | \$ 2,212,301         | \$ (9,890 )                                   | \$ 2,202,694                     |
| Net income                                             | —                                 | —            | —                                | 273,146              | —                                             | 273,146                          |
| Other comprehensive (loss), net                        | —                                 | —            | —                                | —                    | (3,314 )                                      | (3,314 )                         |
| Repurchase of common stock                             | (5,286 )                          | (3 )         | (79,174 )                        | (200,769 )           | —                                             | (279,946 )                       |
| Net issuance of restricted stock units                 | 906                               | 1            | (21,162 )                        | —                    | —                                             | (21,161 )                        |
| Stock options exercised                                | 1,031                             | 2            | 26,382                           | —                    | —                                             | 26,384                           |
| Stock-based compensation                               | —                                 | —            | 58,979                           | —                    | —                                             | 58,979                           |
| Common stock issued under Employee Stock Purchase Plan | 416                               | —            | 14,975                           | —                    | —                                             | 14,975                           |
| Dividends paid, \$1.14 per common share                | —                                 | —            | —                                | (320,766 )           | —                                             | (320,766 )                       |
| Balance, March 31, 2018                                | 279,979                           | \$ 283       | \$ —                             | \$ 1,963,912         | \$ (13,204 )                                  | \$ 1,950,991                     |

See accompanying Notes to Consolidated Financial Statements.

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

|                                                                                   | Nine Months Ended |                   |
|-----------------------------------------------------------------------------------|-------------------|-------------------|
|                                                                                   | March 30,<br>2019 | March 31,<br>2018 |
|                                                                                   | (in thousands)    |                   |
| Cash flows from operating activities:                                             |                   |                   |
| Net income                                                                        | \$459,928         | \$273,146         |
| Adjustments to reconcile net income to net cash provided by operating activities: |                   |                   |
| Stock-based compensation                                                          | 64,973            | 58,932            |
| Depreciation and amortization                                                     | 85,176            | 109,768           |
| Deferred taxes                                                                    | (12,161)          | ) 6,257           |
| Loss (gain) on disposal of property, plant and equipment                          | 3,324             | 572               |
| Impairment of investments in privately-held companies                             | 265               | 850               |
| Other adjustments                                                                 | —                 | 42                |
| Changes in assets and liabilities:                                                |                   |                   |
| Accounts receivable                                                               | 5,475             | (60,194 )         |
| Inventories                                                                       | 9,620             | (23,326 )         |
| Other current assets                                                              | (3,026)           | ) 31,703          |
| Accounts payable                                                                  | (10,971)          | ) 3,429           |
| Income taxes payable                                                              | 53,662            | 280,664           |
| Deferred margin on shipments to distributors                                      | —                 | (14,974 )         |
| Accrued salary and related expenses                                               | (19,845)          | ) 1,826           |
| All other accrued liabilities                                                     | 1,953             | 4,110             |
| Net cash provided by (used in) operating activities                               | 638,373           | 672,805           |
| Cash flows from investing activities:                                             |                   |                   |
| Purchases of property, plant and equipment                                        | (52,170)          | ) (53,664 )       |
| Proceeds from sale of property, plant and equipment                               | 34                | 5,761             |
| Proceeds from sale of available-for-sale securities                               | 30,192            | 100,004           |
| Proceeds from maturity of available-for-sale securities                           | 1,027,083         | 422,500           |
| Payment in connection with business acquisition, net of cash acquired             | (2,949)           | ) (57,773 )       |
| Purchases of available-for-sale securities                                        | (214,587)         | ) (1,122,291 )    |
| Purchases of privately-held companies' securities                                 | (1,676)           | ) (3,356 )        |
| Other investing activities                                                        | (540)             | ) —               |
| Net cash provided by (used in) investing activities                               | 785,387           | (708,819 )        |
| Cash flows from financing activities:                                             |                   |                   |
| Repayment of debt                                                                 | (500,000)         | ) —               |
| Contingent consideration paid                                                     | (9,052)           | ) —               |
| Net issuance of restricted stock units                                            | (23,026)          | ) (21,162 )       |
| Proceeds from stock options exercised                                             | 18,986            | 26,383            |
| Issuance of common stock under employee stock purchase program                    | 17,689            | 14,975            |
| Repurchase of common stock                                                        | (437,047)         | ) (279,944 )      |
| Dividends paid                                                                    | (380,231)         | ) (320,766 )      |
| Net cash provided by (used in) financing activities                               | (1,312,681)       | ) (580,514 )      |
| Net increase (decrease) in cash and cash equivalents                              | 111,079           | (616,528 )        |
| Cash and cash equivalents:                                                        |                   |                   |
| Beginning of period                                                               | \$1,543,484       | \$2,246,121       |
| End of period                                                                     | \$1,654,563       | \$1,629,593       |

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Supplemental disclosures of cash flow information:

|                                                                        |          |          |
|------------------------------------------------------------------------|----------|----------|
| Cash paid, net, during the period for income taxes                     | \$74,385 | \$17,281 |
| Cash paid for interest                                                 | \$31,751 | \$31,750 |
| Noncash financing and investing activities:                            |          |          |
| Accounts payable related to property, plant and equipment purchases    | \$15,252 | \$6,798  |
| 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 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 statement 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 nine months ended March 30, 2019 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 30, 2018.

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 2018 was a 53-week fiscal year and fiscal year 2019 is a 52-week fiscal year. The second quarter of fiscal year 2018 was a 14-week quarter and the second quarter of fiscal year 2019 was a 13-week quarter.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Recently Issued Accounting Pronouncements

(i) New Accounting Updates Recently Adopted

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standard Update (“ASU”) 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. Under the new standard, revenue is recognized when a customer obtains control of promised goods or services in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In addition, the new standard requires reporting companies to disclose the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers.

On July 1, 2018, the Company adopted Topic 606 and related amendments (ASU 2015-14, Deferral of the Effective Date; ASU 2016-08, Principal versus Agent Considerations; ASU 2016-10, Identifying Performance Obligations and Licensing, ASU 2016-12, Narrow-Scope Improvements and Practical Expedients and ASU 2016-20, Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers) using the modified retrospective method applied to all contracts that are not completed at the date of initial application (i.e., July 1, 2018). Results for reporting periods beginning after July 1, 2018 are presented under Topic 606, while prior period amounts are not adjusted and continue to be reported in accordance with historic accounting standards under Topic 605.

There was no impact on the opening retained earnings as of July 1, 2018 due to the adoption of Topic 606. However, in conjunction with the adoption of the new standard, the Company recorded a reclassification of accrued revenue reserves for price adjustments and other revenue reserves from accounts receivable, net to price adjustment and other

revenue reserves within current liabilities.

The cumulative effect of the changes to the condensed consolidated balance sheet from the adoption of Topic 606 was as follows (in thousands):

|                                             | As of<br>June 30,<br>2018 | Effect of<br>Adoption<br>of Topic<br>606 | As of<br>July 1,<br>2018 |
|---------------------------------------------|---------------------------|------------------------------------------|--------------------------|
| Accounts receivable, net                    | \$280,072                 | \$ 141,652                               | \$421,724                |
| Price adjustment and other revenue reserves | —                         | 141,652                                  | 141,652                  |

## Balance Sheet Reclassification

Under Topic 605, the gross amount of accrued revenue reserves for price adjustments and other revenue reserves of \$141.7 million was included within accounts receivable, net as of June 30, 2018. Subsequent to the adoption of Topic 606, such balances are presented on a gross basis as accrued price adjustments and other revenue reserves of \$141.7 million, which is presented in the price adjustment and other revenue reserves balance sheet caption.

The adoption of Topic 606 has no impact on the total cash flows from operating, investing, or financing activities on the Condensed Consolidated Statements of Cash Flows.

The following table summarizes the impacts of adopting Topic 606 on the Company's Condensed Consolidated Balance Sheet as of March 30, 2019 (in thousands):

|                                             | As<br>Reported | If<br>Reported<br>Under<br>Topic<br>605 | Effect of<br>Adoption<br>of Topic<br>606 |
|---------------------------------------------|----------------|-----------------------------------------|------------------------------------------|
| Accounts receivable, net                    | \$381,152      | \$275,141                               | \$106,011                                |
| Price adjustment and other revenue reserves | 106,011        | —                                       | 106,011                                  |

## Practical Expedients and Elections

The Company does not disclose the value of unsatisfied performance obligations for (i) contracts with an original expected length of one year or less and (ii) contracts for which the Company recognizes revenue at the amount to which it has the right to invoice for services performed.

The Company has elected to account for shipping and handling costs as fulfillment costs after the customer obtains control of the goods.

The Company has elected to exclude sales, use, value added, and some excise taxes, if applicable, from the measurement of the transaction price.

## Updated Revenue Recognition Policy

The Company recognizes revenue for sales to direct customers and distribution customers ("distributors") when a customer obtains control of promised goods or services in an amount that reflects the consideration which the Company expects to receive in exchange for those goods or services. The transaction price is calculated as selling price net of variable considerations, such as distributor price adjustments. In determining the transaction price, the Company evaluates whether the price is subject to refund or adjustment to determine the net consideration to which it is expected to be entitled. The transaction price does not include amounts collected on behalf of another party, such as sales taxes or value added tax. The Company elected the practical expedient to not disclose the value of unsatisfied performance obligations for (i) contracts with an original expected length of one year or less and (ii) contracts for which it recognizes revenue at the amount to which it has the right to invoice for services performed. The Company estimates returns for sales to direct customers and distributors based on historical return rates applied against current period gross revenue. Specific customer returns and allowances are considered within this estimate.

Accounts receivable from direct customers and distributors are recognized and inventory is relieved upon shipment as title to inventories generally transfers upon shipment, at which point the Company has a legally enforceable right to collection under normal terms. Accounts receivable related to consigned inventory is recognized when the customer

takes title to such inventory from its consigned location, at which point inventory is relieved, title transfers, and the Company has a legally enforceable right to collection under the terms of the agreement with the related customers. Customers are generally required to pay for products and services within the Company's standard terms, which is net 30 days from the date of invoice. The Company does not have any significant financing components greater than one year.

The Company estimates potential future returns and sales allowances related to current period product revenue. Management analyzes historical returns, changes in customer demand and acceptance of products when evaluating the adequacy of returns and sales allowances. Estimates made may differ from actual returns and sales allowances. These differences may materially impact reported revenue and amounts ultimately collected on accounts receivable. Historically, such differences have not been material.

Distributor price adjustments are estimated based on the Company's historical experience rates and also considering economic conditions and contractual terms. To date, actual distributor claims activity has been materially consistent with the estimates that the Company has made based on its historical rates.

The Company's revenue arrangements do not contain significant financing components. Revenue is recognized over a period of time when it is assessed that performance obligations are satisfied over a period rather than at a point in time. When any of the following criteria is fulfilled, revenue is recognized over a period of time:

- (a) The customer simultaneously receives and consumes the benefits provided by the performance completed.
- (b) Performance creates or enhances an asset (for example, work in process) that the customer controls as the asset is created or enhanced.
- (c) Performance does not create an asset with an alternative use, and has an enforceable right to payment for performance completed to date.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities, with further classifications made recently with the issuance of ASU 2018-03 and ASU 2018-04, which provides guidance for the recognition, measurement, presentation, and disclosure of financial assets and liabilities. The application of this ASU was made by the means of a cumulative-effect adjustment to the balance sheet for the equity securities that qualify for the practical expedient to estimate fair value using the net asset value per share. The amendments related to equity securities without readily determinable fair values (including disclosure requirements) is being applied prospectively to equity investments that exist as of the date of adoption. The Company adopted ASU 2016-01 in the first quarter of fiscal year 2019. As a result of this adoption, the Company recognized an increase of \$2.5 million, net of tax, in retained earnings at the beginning of fiscal year 2019.

In October 2016, the FASB issued ASU 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory. ASU 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. The Company adopted ASU 2016-16 in the first quarter of fiscal year 2019. The adoption of this guidance did not have an impact on the Company's consolidated financial statements.

In March 2017, the FASB issued ASU 2017-07, Compensation - Retirement Benefits (Topic 715): 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 application of ASU 2017-07 requires retrospective basis for all periods presented. The Company adopted ASU 2017-07 in the first quarter of fiscal year 2019. The adoption of this guidance did not have a material impact on the Company's 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. Unless the changes in terms or conditions meet all three criteria outlined in the guidance, modification accounting should be applied. The three criteria relate to changes in the terms and conditions that affect the fair value, vesting conditions, or classification of a share-based payment award. The guidance is required to be applied prospectively to an award modified on or after the adoption date. The Company adopted ASU 2017-09 in the first quarter of fiscal year 2019. The adoption of this guidance did not have an impact on the Company's consolidated financial statements.

In February 2018, the FASB issued ASU 2018-02, Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. This standard provides guidance about the reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. The Company adopted ASU 2018-02 in the first quarter of fiscal year 2019. There was no material change to the Company's consolidated financial statements as a result of this adoption.

In June 2018, the FASB issued ASU 2018-07, Compensation - Stock Compensation (Topic 718): Improvements to Non-employee Share-Based Payment Accounting. This ASU largely aligns the accounting for share-based payment awards to employees and non-employees. Under the new guidance, both sets of awards, for employees and non-employees, will essentially follow the same model, with small discrepancies related to the term assumption when valuing non-employee awards. The Company adopted ASU 2018-07 in the first quarter of fiscal year 2019. The adoption of this guidance did not have an impact on the Company's consolidated financial statements.

SEC Disclosure Update and Simplification. In August 2018, the SEC adopted a final rule under SEC Release No. 33-10532, Disclosure Update and Simplification, which amends certain disclosure requirements that were redundant and outdated. The rule also requires registrants to include in their interim financial statements a reconciliation of changes in stockholders' equity in the notes or as a separate statement. The final rule was effective on November 5, 2018. The Company has adopted the final rule as of December 29, 2018, and has included a reconciliation of the changes in stockholders' equity in this Form 10-Q.

(ii) Recent Accounting Updates Not Yet Effective

In February 2016, the FASB issued ASU 2016-02, Leases and subsequent amendments to the initial update: ASU 2017-13, ASU 2018-01, ASU 2018-11, ASU 2018-20 and ASU 2019-01 (collectively, Topic 842), which superseded the lease accounting requirements in Topic 840. Topic 842 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 and expects that there will be a material increase in assets and liabilities on the Consolidated Balance Sheets at adoption due to the recognition of right-of-use assets and related lease liabilities. Upon adoption, the Company expects that its financial statement disclosures will be expanded to present additional details of its leasing arrangements.

In August 2018, the FASB issued ASU 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement, which improves disclosures by removing, modifying and adding disclosure requirements related to fair value measurements. The update highlights adjustments in disclosures for changes in the fair value of Level 1, Level 2, and Level 3 instruments. This guidance is effective beginning in the first quarter of fiscal year 2021, with early adoption permitted. The Company does not believe that this update will have a material impact on its consolidated financial statements.

NOTE 3: BALANCE SHEET COMPONENTS

Inventories consist of:

|                             | March 30,<br>2019 | June 30,<br>2018 |
|-----------------------------|-------------------|------------------|
| Inventories: (in thousands) |                   |                  |
| Raw materials               | \$ 18,799         | \$ 16,251        |
| Work-in-process             | 172,020           | 173,859          |
| Finished goods              | 82,013            | 92,280           |
|                             | \$ 272,832        | \$ 282,390       |

Property, plant and equipment, net consists of:

|                                                    | March 30,<br>2019 | June 30,<br>2018 |
|----------------------------------------------------|-------------------|------------------|
| Property, plant and equipment, net: (in thousands) |                   |                  |
| Land                                               | \$ 17,731         | \$ 17,731        |
| Buildings and building improvements                | 258,642           | 254,733          |
| Machinery, equipment and software                  | 1,358,892         | 1,309,487        |

|                                |             |             |
|--------------------------------|-------------|-------------|
|                                | 1,635,265   | 1,581,951   |
| Less: accumulated depreciation | (1,063,310) | (1,002,587) |
|                                | \$571,955   | \$579,364   |

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Accrued salary and related expenses consist of:

|                                                     | March 30, June 30, |           |
|-----------------------------------------------------|--------------------|-----------|
|                                                     | 2019               | 2018      |
| Accrued salary and related expenses: (in thousands) |                    |           |
| Accrued vacation                                    | \$28,831           | \$30,695  |
| Accrued bonus                                       | 56,187             | 92,288    |
| Accrued salaries                                    | 13,711             | 8,210     |
| ESPP withholding                                    | 15,634             | 5,158     |
| Accrued fringe benefits                             | 8,075              | 4,752     |
| Other                                               | 5,927              | 10,579    |
|                                                     | \$128,365          | \$151,682 |

#### 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 and foreign currency forward contracts that are valued using quoted market prices or are determined using a yield curve model based on current market rates.

Level 3 - Unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of the assets or liabilities.

The Company's Level 3 assets and liabilities consist of acquisition related contingent consideration liabilities.

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

|                                    | As of March 30, 2019 |           |         |                  | As of June 30, 2018 |             |          |                  |
|------------------------------------|----------------------|-----------|---------|------------------|---------------------|-------------|----------|------------------|
|                                    | Fair Value           |           |         | Total<br>Balance | Fair Value          |             |          | Total<br>Balance |
|                                    | Measurements Using   |           |         |                  | Measurements Using  |             |          |                  |
|                                    | Level 1              | Level 2   | Level 3 |                  | Level 1             | Level 2     | Level 3  |                  |
|                                    | (in thousands)       |           |         |                  |                     |             |          |                  |
| Assets                             |                      |           |         |                  |                     |             |          |                  |
| Cash and cash equivalents          |                      |           |         |                  |                     |             |          |                  |
| Agency securities                  | \$—                  | \$—       | \$—     | \$—              | \$—                 | \$13,946    | \$—      | \$13,946         |
| Certificates of deposit            | —                    | —         | —       | —                | —                   | 6,000       | —        | 6,000            |
| Commercial paper                   | —                    | —         | —       | —                | —                   | 45,063      | —        | 45,063           |
| Corporate debt securities          | —                    | —         | —       | —                | —                   | 3,819       | —        | 3,819            |
| Money market funds                 | 195,805              | —         | —       | 195,805          | 98,467              | —           | —        | 98,467           |
| U.S. Treasury securities           | —                    | —         | —       | —                | —                   | 30,988      | —        | 30,988           |
| Short term investments             |                      |           |         |                  |                     |             |          |                  |
| Certificates of deposit            | —                    | 5,000     | —       | 5,000            | —                   | 52,428      | —        | 52,428           |
| Commercial paper                   | —                    | 2,999     | —       | 2,999            | —                   | 64,354      | —        | 64,354           |
| Corporate debt securities          | —                    | 185,994   | —       | 185,994          | —                   | 367,765     | —        | 367,765          |
| U.S. Treasury securities           | —                    | 49,871    | —       | 49,871           | —                   | 598,368     | —        | 598,368          |
| Other current assets               |                      |           |         |                  |                     |             |          |                  |
| Foreign currency forward contracts | —                    | 230       | —       | 230              | —                   | 235         | —        | 235              |
| Total assets                       | \$195,805            | \$244,094 | \$—     | \$439,899        | \$98,467            | \$1,182,966 | \$—      | \$1,281,433      |
| Liabilities                        |                      |           |         |                  |                     |             |          |                  |
| Accrued expenses                   |                      |           |         |                  |                     |             |          |                  |
| Foreign currency forward contracts | \$—                  | \$496     | \$—     | \$496            | \$—                 | \$1,845     | \$—      | \$1,845          |
| Contingent consideration           | —                    | —         | 9,052   | 9,052            | —                   | —           | 8,000    | 8,000            |
| Other liabilities                  |                      |           |         |                  |                     |             |          |                  |
| Contingent consideration           | —                    | —         | —       | —                | —                   | —           | 8,000    | 8,000            |
| Total Liabilities                  | \$—                  | \$496     | \$9,052 | \$9,548          | \$—                 | \$1,845     | \$16,000 | \$17,845         |

During the nine months ended March 30, 2019 and the year ended June 30, 2018, 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 March 30, 2019 and June 30, 2018 other than impairments of long-lived assets. The Company uses various inputs to evaluate investments in privately held companies, including valuations of recent financing events as well as other relevant information regarding the performance of the issuer. There were no material impairments of long-lived assets in any of the periods presented.

## NOTE 5: FINANCIAL INSTRUMENTS

## Short-term investments

Fair values were as follows:

|                                         | March 30, 2019    |                             |                             |                            | June 30, 2018     |                             |                             |                         |
|-----------------------------------------|-------------------|-----------------------------|-----------------------------|----------------------------|-------------------|-----------------------------|-----------------------------|-------------------------|
|                                         | Amortized<br>Cost | Gross<br>Unrealized<br>Gain | Gross<br>Unrealized<br>Loss | Estimated<br>Fair<br>Value | Amortized<br>Cost | Gross<br>Unrealized<br>Gain | Gross<br>Unrealized<br>Loss | Estimated<br>Fair Value |
|                                         | (in thousands)    |                             |                             |                            |                   |                             |                             |                         |
| Available-for-sale<br>investments       |                   |                             |                             |                            |                   |                             |                             |                         |
| Certificates of deposit                 | \$5,000           | \$ —                        | \$ —                        | \$5,000                    | \$52,429          | \$ —                        | \$ (1 )                     | \$52,428                |
| Commercial paper                        | 2,999             | —                           | —                           | 2,999                      | 64,354            | —                           | —                           | 64,354                  |
| Corporate debt securities               | 186,446           | 21                          | (473 )                      | 185,994                    | 369,734           | 39                          | (2,008 )                    | 367,765                 |
| U.S. Treasury securities                | 49,973            | —                           | (102 )                      | 49,871                     | 600,068           | 10                          | (1,710 )                    | 598,368                 |
| Total available-for-sale<br>investments | \$244,418         | \$ 21                       | \$ (575 )                   | \$243,864                  | \$1,086,585       | \$ 49                       | \$ (3,719 )                 | \$1,082,915             |

In the three and nine months ended March 30, 2019 and June 30, 2018, the Company did not recognize any impairment charges on short-term investments. All available-for-sale investments have maturity dates between April 1, 2019 and March 12, 2021.

The Company invests 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

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 the European Euro, Indian Rupee, Japanese Yen, Taiwan New Dollar, South Korean Won, Chinese Yuan and Canadian Dollar, 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") 815, Derivatives and Hedging ("ASC 815"). As of March 30, 2019 and June 30, 2018, the notional amounts of the forward contracts the Company held to purchase international currencies were \$44.4 million and \$49.7 million, respectively, and the notional amounts of forward contracts the Company held to sell international currencies were \$0 and \$1.2 million, respectively.

## Derivatives not designated as hedging instruments

As of March 30, 2019 and June 30, 2018, the notional amounts of the forward contracts the Company held to purchase international currencies were \$19.9 million and \$21.1 million, respectively, and the notional amounts of forward

contracts the Company held to sell international currencies were \$21.9 million and \$21.3 million, respectively. The Company's foreign currency forward contract gains or losses included in the Condensed Consolidated Statements of Income were not material for the three and nine months ended March 30, 2019 and March 31, 2018.

# Effect of hedge accounting on the Condensed Consolidated Statements of Income

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

|                                                                                      | Three Months Ended<br>March 30, 2019 |                          |                       | Nine Months Ended<br>March 30, 2019 |                          |                       |
|--------------------------------------------------------------------------------------|--------------------------------------|--------------------------|-----------------------|-------------------------------------|--------------------------|-----------------------|
|                                                                                      | Net<br>Revenue                       | Cost of<br>Goods<br>Sold | Operating<br>Expenses | Net<br>Revenue                      | Cost of<br>Goods<br>Sold | Operating<br>Expenses |
|                                                                                      | (in thousands)                       |                          |                       |                                     |                          |                       |
| Income and expenses line items in which the effects of cash flow hedges are recorded | \$542,383                            | \$201,552                | \$183,691             | \$1,757,784                         | \$613,669                | \$570,588             |
| Gain (loss) on cash flow hedges:                                                     |                                      |                          |                       |                                     |                          |                       |
| Foreign exchange contracts:                                                          |                                      |                          |                       |                                     |                          |                       |
| Gain (loss) reclassified from accumulated other comprehensive income into income     | \$6                                  | \$261                    | \$(79)                | \$50                                | \$(335)                  | \$(1,906)             |

|                                                                                      | Three Months Ended<br>March 31, 2018 |                          |                       | Nine Months Ended<br>March 31, 2018 |                          |                       |
|--------------------------------------------------------------------------------------|--------------------------------------|--------------------------|-----------------------|-------------------------------------|--------------------------|-----------------------|
|                                                                                      | Net<br>Revenue                       | Cost of<br>Goods<br>Sold | Operating<br>Expenses | Net<br>Revenue                      | Cost of<br>Goods<br>Sold | Operating<br>Expenses |
|                                                                                      | (in thousands)                       |                          |                       |                                     |                          |                       |
| Income and expenses line items in which the effects of cash flow hedges are recorded | \$648,599                            | \$224,653                | \$199,108             | \$1,846,913                         | \$639,460                | \$596,401             |
| Gain (loss) on cash flow hedges:                                                     |                                      |                          |                       |                                     |                          |                       |
| Foreign exchange contracts:                                                          |                                      |                          |                       |                                     |                          |                       |
| Gain (loss) reclassified from accumulated other comprehensive income into income     | \$(11)                               | \$165                    | \$356                 | \$(64)                              | \$116                    | \$1,781               |

## Outstanding debt obligations

The following table summarizes the Company's outstanding debt obligations:

|                                                                  | March 30,<br>2019 | June 30,<br>2018 |
|------------------------------------------------------------------|-------------------|------------------|
|                                                                  | (in thousands)    |                  |
| 3.45% fixed rate notes due June 2027                             | \$500,000         | \$500,000        |
| 2.5% fixed rate notes due November 2018                          | —                 | 500,000          |
| 3.375% fixed rate notes due March 2023                           | 500,000           | 500,000          |
| Total outstanding debt                                           | 1,000,000         | 1,500,000        |
| Less: Current portion (included in "Current portion of debt")    | —                 | (499,406)        |
| Less: Reduction for unamortized discount and debt issuance costs | (7,775)           | (9,447)          |
| Total long-term debt                                             | \$992,225         | \$991,147        |

On June 15, 2017, the Company completed a public offering of \$500 million aggregate principal amount of the Company's 3.45% 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. In November of 2018, the Company repaid the entire \$500 million in principal and any outstanding interest, related to these outstanding 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 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 \$490.0 million, after issuing at a discount and deducting paid expenses.

The debt indentures that govern the 2027 Notes and the 2023 Notes 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 or the 2023 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 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, were \$8.9 million and \$12.4 million during the three months ended March 30, 2019 and March 31, 2018, respectively. Amortized discount and expenses, as well as interest expense associated with the notes, were \$32.5 million and \$37.1 million during the nine months ended March 30, 2019 and March 31, 2018, respectively.

The estimated fair value of the Company's outstanding debt obligations was approximately \$985 million as of March 30, 2019. 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 \$9.3 million and \$12.4 million during the three months ended March 30, 2019, and March 31, 2018, respectively. The Company recorded interest expense of \$33.9 million and \$37.6 million during the nine months ended March 30, 2019 and March 31, 2018, respectively.

#### 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 March 30, 2019, 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 ratably 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. 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 and nine months ended March 30, 2019 and March 31, 2018, respectively:

|                                          | Three Months Ended<br>March 30, 2019 |                              |                                       |          | March 31, 2018   |                              |                                       |          |
|------------------------------------------|--------------------------------------|------------------------------|---------------------------------------|----------|------------------|------------------------------|---------------------------------------|----------|
|                                          | Stock<br>Options                     | Restricted<br>Stock<br>Units | Employee<br>Stock<br>Purchase<br>Plan | Total    | Stock<br>Options | Restricted<br>Stock<br>Units | Employee<br>Stock<br>Purchase<br>Plan | Total    |
|                                          | (in thousands)                       |                              |                                       |          |                  |                              |                                       |          |
| Cost of goods sold                       | \$8                                  | \$ 1,951                     | \$ 654                                | \$2,613  | \$35             | \$ 2,003                     | \$ 537                                | \$2,575  |
| Research and development                 | 5                                    | 9,399                        | 1,658                                 | 11,062   | 13               | 8,725                        | 1,339                                 | 10,077   |
| Selling, general and administrative      | 64                                   | 8,184                        | 897                                   | 9,145    | 51               | 7,218                        | 684                                   | 7,953    |
| Pre-tax stock-based compensation expense | \$77                                 | \$ 19,534                    | \$ 3,209                              | \$22,820 | \$99             | \$ 17,946                    | \$ 2,560                              | \$20,605 |
| Less: income tax effect                  |                                      |                              |                                       | 1,946    |                  |                              |                                       | 2,053    |
| Net stock-based compensation expense     |                                      |                              |                                       | \$20,874 |                  |                              |                                       | \$18,552 |

|                                          | Nine Months Ended<br>March 30, 2019 |                              |                                       |          | March 31, 2018   |                              |                                       |          |
|------------------------------------------|-------------------------------------|------------------------------|---------------------------------------|----------|------------------|------------------------------|---------------------------------------|----------|
|                                          | Stock<br>Options                    | Restricted<br>Stock<br>Units | Employee<br>Stock<br>Purchase<br>Plan | Total    | Stock<br>Options | Restricted<br>Stock<br>Units | Employee<br>Stock<br>Purchase<br>Plan | Total    |
|                                          | (in thousands)                      |                              |                                       |          |                  |                              |                                       |          |
| Cost of goods sold                       | \$28                                | \$ 5,597                     | \$ 1,656                              | \$7,281  | \$196            | \$ 5,783                     | \$ 1,482                              | \$7,461  |
| Research and development                 | 27                                  | 26,783                       | 3,948                                 | 30,758   | 507              | 24,212                       | 3,342                                 | 28,061   |
| Selling, general and administrative      | 178                                 | 24,600                       | 2,156                                 | 26,934   | 636              | 21,004                       | 1,770                                 | 23,410   |
| Pre-tax stock-based compensation expense | \$233                               | \$ 56,980                    | \$ 7,760                              | \$64,973 | \$1,339          | \$ 50,999                    | \$ 6,594                              | \$58,932 |
| Less: income tax effect                  |                                     |                              |                                       | 6,214    |                  |                              |                                       | 6,830    |
| Net stock-based compensation expense     |                                     |                              |                                       | \$58,759 |                  |                              |                                       | \$52,102 |

The expenses included in the Condensed Consolidated Statements of Income for RSUs include expenses related to MSUs of \$3.0 million and \$2.2 million for the three months ended March 30, 2019 and March 31, 2018, respectively, and \$8.3 million and \$5.8 million for the nine months ended March 30, 2019 and March 31, 2018, 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 and nine months ended March 30, 2019 and March 31, 2018.

The following table summarizes outstanding, exercisable and vested and expected to vest stock options as of March 30, 2019 and related activity for the nine months ended March 30, 2019:



|                                             | Number of<br>Shares | Weighted<br>Average<br>Exercise<br>Price | Weighted Average Remaining Contractual<br>Term (in Years) | Aggregate<br>Intrinsic<br>Value <sup>(1)</sup> |
|---------------------------------------------|---------------------|------------------------------------------|-----------------------------------------------------------|------------------------------------------------|
| Balance at June 30, 2018                    | 1,688,253           | \$ 27.72                                 |                                                           |                                                |
| Options Granted                             | —                   | —                                        |                                                           |                                                |
| Options Exercised                           | (699,416 )          | 27.13                                    |                                                           |                                                |
| Options Cancelled                           | (3,439 )            | 28.08                                    |                                                           |                                                |
| Balance at March 30, 2019                   | 985,398             | \$ 28.14                                 | 1.3                                                       | \$25,692,173                                   |
| Exercisable, March 30, 2019                 | 985,398             | \$ 28.14                                 | 1.3                                                       | \$25,692,173                                   |
| Vested and expected to vest, March 30, 2019 | 985,398             | \$ 28.14                                 | 1.3                                                       | \$25,692,173                                   |

Aggregate intrinsic value represents the difference between the exercise price and the closing price per share of the (1) Company's common stock on March 29, 2019, the last business day preceding the fiscal quarter-end, multiplied by the number of options outstanding, exercisable or vested and expected to vest as of March 30, 2019.

As of March 30, 2019, there was no unrecognized stock compensation from unvested stock options.

#### Restricted Stock Units and Other Awards

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 \$51.01 and \$54.81 per share for the three months ended March 30, 2019 and March 31, 2018, respectively, and \$54.04 and \$44.49 per share for the nine months ended March 30, 2019 and March 31, 2018, respectively.

The following table summarizes the outstanding and expected to vest RSUs and other awards as of March 30, 2019 and related activity during the nine months ended March 30, 2019:

|                                                   | Number of<br>Shares | Weighted<br>Average<br>Remaining<br>Contractual<br>Term<br>(in Years) | Aggregate<br>Intrinsic<br>Value <sup>(1)</sup> |
|---------------------------------------------------|---------------------|-----------------------------------------------------------------------|------------------------------------------------|
| Balance at June 30, 2018                          | 5,524,432           |                                                                       |                                                |
| Restricted stock units and other awards granted   | 1,614,379           |                                                                       |                                                |
| Restricted stock units and other awards released  | (1,377,399 )        |                                                                       |                                                |
| Restricted stock units and other awards cancelled | (458,762 )          |                                                                       |                                                |
| Balance at March 30, 2019                         | 5,302,650           | 2.7                                                                   | \$ 287,456,657                                 |
| Outstanding and expected to vest, March 30, 2019  | 4,439,502           | 2.7                                                                   | \$ 240,665,404                                 |

Aggregate intrinsic value for RSUs and other awards represents the closing price per share of the Company's (1) common stock on March 29, 2019, the last business day preceding the fiscal quarter-end, multiplied by the number of RSUs outstanding or expected to vest as of March 30, 2019.

The Company withheld shares totaling \$23.0 million in value as a result of employee withholding taxes based on the value of RSUs on vesting date for the nine months ended March 30, 2019. Total payments for employees' tax

obligations to taxing authorities are reflected as financing activities within the Condensed Consolidated Statements of Cash Flows.

As of March 30, 2019, there was \$162.6 million of unrecognized compensation expense related to 5.3 million unvested RSUs and other awards, which is expected to be recognized over a weighted average period of approximately 2.7 years.

Market Stock Units (MSUs)

The Company grants MSUs to senior members of management in lieu of granting stock options. 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 and after, the performance metrics for this program are based on the total shareholder return ("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, as applicable. Vesting for MSUs is contingent upon both service and market conditions and has a four-year vesting cliff period. MSUs granted after August 2017 vest based upon annual performance and are subject to continued service through the end of the four-year period, but will continue to vest post-employment at the Company for certain individuals satisfying specific eligibility requirements.

The weighted-average fair value of MSUs granted was \$75.48 and \$51.03 per share for the nine months ended March 30, 2019 and March 31, 2018, respectively.

The following table summarizes the number of MSUs outstanding and expected to vest as of March 30, 2019 and their activity during the nine months ended March 30, 2019:

|                                                  | Number of<br>Shares | Weighted Average<br>Remaining<br>Contractual Term<br>(in Years) | Aggregate<br>Intrinsic<br>Value <sup>(1)</sup> |
|--------------------------------------------------|---------------------|-----------------------------------------------------------------|------------------------------------------------|
| Balance at June 30, 2018                         | 1,079,064           |                                                                 |                                                |
| Market stock units granted                       | 247,804             |                                                                 |                                                |
| Market stock units released                      | (13,594 )           |                                                                 |                                                |
| Market stock units cancelled                     | (264,742 )          |                                                                 |                                                |
| Balance at March 30, 2019                        | 1,048,532           | 2.7                                                             | \$56,840,920                                   |
| Outstanding and expected to vest, March 30, 2019 | 976,524             | 2.7                                                             | \$52,937,345                                   |

Aggregate intrinsic value for MSUs represents the closing price per share of the Company's common stock on (1) March 29, 2019, the last business day preceding the fiscal quarter-end, multiplied by the number of MSUs outstanding or expected to vest as of March 30, 2019.

As of March 30, 2019, there was \$31.3 million of unrecognized compensation expense related to 1.0 million unvested MSUs, which is expected to be recognized over a weighted average period of approximately 2.7 years.

#### Employee Stock Purchase Plan

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

The fair value of 2008 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:

|                                    | Three Months Ended |                | Nine Months Ended |                |
|------------------------------------|--------------------|----------------|-------------------|----------------|
|                                    | March 30, 2019     | March 31, 2018 | March 30, 2019    | March 31, 2018 |
| Expected holding period (in years) | 0.5 years          | 0.5 years      | 0.5 years         | 0.5 years      |
| Risk-free interest rate            | 2.4% - 2.6%        | 1.1% - 1.5%    | 1.6% - 2.6%       | 0.8% - 1.5%    |
| Expected stock price volatility    | 27.5 % - 28.9%     | 20.5% - 20.7%  | 19.6% - 32.7 %    | 19.1% - 24.7%  |
| Dividend yield                     | 2.8% - 3.1%        | 3.0% - 3.1%    | 2.8% - 3.1%       | 3.0% - 3.4%    |

As of March 30, 2019, there was \$5.3 million of unrecognized compensation expense related to the 2008 ESPP.

NOTE 7: EARNINGS PER SHARE

Basic earnings per share are computed using the weighted average number of shares of common stock outstanding during the period. For purposes of computing basic earnings per share, the weighted average number of outstanding shares of common stock

excludes unvested RSUs and other awards as well as MSUs. Diluted earnings per share incorporates the incremental shares issuable upon the assumed exercise of stock options, assumed release of unvested RSUs and other awards as well as MSUs, and assumed issuance of common stock under the 2008 ESPP using the treasury stock method.

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

|                                                                       | Three Months Ended<br>March 30, 2019  |           | Nine Months Ended<br>March 31, 2018 |           |
|-----------------------------------------------------------------------|---------------------------------------|-----------|-------------------------------------|-----------|
|                                                                       | 2019                                  | 2018      | 2019                                | 2018      |
|                                                                       | (in thousands, except per share data) |           |                                     |           |
| Numerator for basic earnings per share and diluted earnings per share |                                       |           |                                     |           |
| Net income                                                            | \$130,613                             | \$193,627 | \$459,928                           | \$273,146 |
| Denominator for basic earnings per share                              | 273,221                               | 280,850   | 275,831                             | 281,525   |
| Effect of dilutive securities:                                        |                                       |           |                                     |           |
| Stock options, ESPP, RSUs, and MSUs                                   | 3,389                                 | 5,031     | 3,849                               | 4,696     |
| Denominator for diluted earnings per share                            | 276,610                               | 285,881   | 279,680                             | 286,221   |
| Earnings per share                                                    |                                       |           |                                     |           |
| Basic                                                                 | \$0.48                                | \$0.69    | \$1.67                              | \$0.97    |
| Diluted                                                               | \$0.47                                | \$0.68    | \$1.64                              | \$0.95    |

For the three months ended March 30, 2019 and March 31, 2018, and the nine months ended March 30, 2019 and March 31, 2018, no stock awards were determined to be anti-dilutive. 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 and reportable 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 |                | Nine Months Ended |                |
|---------------|--------------------|----------------|-------------------|----------------|
|               | March 30, 2019     | March 31, 2018 | March 30, 2019    | March 31, 2018 |
|               | (in thousands)     |                |                   |                |
| United States | \$63,970           | \$75,760       | \$200,944         | \$223,021      |
| China         | 183,753            | 219,160        | 611,768           | 662,114        |
| Rest of Asia  | 176,396            | 222,207        | 583,616           | 586,109        |
| Europe        | 104,124            | 114,254        | 316,155           | 329,939        |
| Rest of World | 14,140             | 17,218         | 45,301            | 45,730         |
|               | \$542,383          | \$648,599      | \$1,757,784       | \$1,846,913    |

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

|               | March 30, 2019 | June 30, 2018 |
|---------------|----------------|---------------|
|               | (in thousands) |               |
| United States | \$359,743      | \$361,432     |
| Philippines   | 110,214        | 120,657       |
| Rest of World | 101,998        | 97,275        |
|               | \$571,955      | \$579,364     |

#### NOTE 9: COMPREHENSIVE INCOME (LOSS)

The changes in accumulated other comprehensive income (loss) by component and related tax effects in the nine months ended March 30, 2019 and March 31, 2018 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 30, 2018                                                             | \$ (6,280 )                                               | \$ (2,516 )                                               | \$ (1,136 )                       | \$ (1,383 )                                       | \$ (3,670 )                                                    | \$ (14,985 ) |
| Other comprehensive income (loss) before reclassifications                | —                                                         | —                                                         | —                                 | (783 )                                            | 3,247                                                          | 2,464        |
| Amounts reclassified out of accumulated other comprehensive loss (income) | —                                                         | 292                                                       | —                                 | 2,191                                             | —                                                              | 2,483        |
| Tax effects                                                               | —                                                         | (60 )                                                     | —                                 | (241 )                                            | (131 )                                                         | (432 )       |
| Other comprehensive income, net                                           | —                                                         | 232                                                       | —                                 | 1,167                                             | 3,116                                                          | 4,515        |
| March 30, 2019                                                            | \$ (6,280 )                                               | \$ (2,284 )                                               | \$ (1,136 )                       | \$ (216 )                                         | \$ (554 )                                                      | \$ (10,470 ) |

| (in thousands)                                                               | Unrealized<br>Gains and<br>(Losses) on<br>Intercompany<br>Receivables | Unrealized<br>Gains and<br>(Losses) on<br>Post-Retirement<br>Benefits | Cumulative and<br>Translation Adjustment | Unrealized<br>Gains<br>(Losses) on<br>Cash<br>Flow<br>Hedges | Unrealized<br>Gains and<br>(Losses) on<br>Available-For-Sale<br>Securities | Total        |
|------------------------------------------------------------------------------|-----------------------------------------------------------------------|-----------------------------------------------------------------------|------------------------------------------|--------------------------------------------------------------|----------------------------------------------------------------------------|--------------|
| June 24, 2017                                                                | \$ (6,280 )                                                           | \$ (1,258 )                                                           | \$ (1,136 )                              | \$ 18                                                        | \$ (1,234 )                                                                | \$ (9,890 )  |
| Other comprehensive income (loss)<br>before reclassifications                | —                                                                     | —                                                                     | —                                        | 2,012                                                        | (3,707 )                                                                   | (1,695 )     |
| Amounts reclassified out of accumulated<br>other comprehensive loss (income) | —                                                                     | 154                                                                   | —                                        | (1,834 )                                                     | —                                                                          | (1,680 )     |
| Tax effects                                                                  | —                                                                     | (168 )                                                                | —                                        | (45 )                                                        | 274                                                                        | 61           |
| Other comprehensive income (loss), net                                       | —                                                                     | (14 )                                                                 | —                                        | 133                                                          | (3,433 )                                                                   | (3,314 )     |
| March 31, 2018                                                               | \$ (6,280 )                                                           | \$ (1,272 )                                                           | \$ (1,136 )                              | \$ 151                                                       | \$ (4,667 )                                                                | \$ (13,204 ) |

## NOTE 10: INCOME TAXES

In the three and nine months ended March 30, 2019, the Company recorded an income tax provision of \$29.8 million and \$116.8 million, respectively, compared to \$28.7 million and \$328.0 million for the three and nine months ended March 31, 2018, respectively. The Company's effective tax rate for the three and nine months ended March 30, 2019 was 18.6% and 20.3%, respectively, compared to the 12.9% and 54.6% for the three and nine months ended March 31, 2018, respectively.

On December 22, 2017 legislation, commonly referred to as the Tax Cuts and Jobs Act (the "Act"), was enacted. The Act included a one-time tax on accumulated unremitted earnings of our foreign subsidiaries ("Transition Tax"). SEC Staff Accounting Bulletin No. 118 allowed the use of provisional amounts (reasonable estimates) if accounting for the income tax effects of the Act was not completed. Provisional amounts must be adjusted within a one-year measurement period from the enactment date of the Act. In the second quarter of fiscal year 2018, the Company recorded a discrete \$236.9 million provisional Transition Tax charge. During the measurement period, the Company gathered information and analyzed available guidance to more precisely compute the amount of the Transition Tax. In the second quarter of fiscal year 2019 the Company completed this work and recorded a discrete \$22.1 million measurement period adjustment for the Transition Tax, which increased the Company's effective tax rate for the nine months ended March 30, 2019 by 3.8%. As of the end of the second quarter of fiscal year 2019, the accounting for income tax effects of the Act has been completed.

The Act reduced the federal statutory tax rate from 35% to 21%, effective January 1, 2018, which resulted in a fiscal year 2018 federal statutory tax rate of 28.1% for the Company (average of a 35% rate for the first half of fiscal year 2018 and a 21% rate for the second half of fiscal year 2018). The Company's federal statutory tax rate for fiscal year 2019 is 21%. In the second quarter of fiscal year 2018, the Company recorded a \$13.7 million discrete charge to remeasure deferred tax assets and liabilities as of the enactment date of the Act to reflect the federal statutory tax rate reductions.

The Act included Global Intangible Low-Taxed Income ("GILTI") provisions, which first impact the Company in fiscal year 2019. The GILTI provisions effectively subject income earned by the Company's foreign subsidiaries to current U.S. tax at a rate of 10.5%, less foreign tax credits. The Company has elected to treat tax generated by the GILTI provisions as a period expense.

The Company's federal statutory tax rate for fiscal year 2019 is 21%. The Company's effective tax rate for the three months ended March 30, 2019 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,

partially offset by tax generated by the GILTI provisions, a \$4.1 million discrete charge for differences between the Company's fiscal year 2018 tax returns and the tax provision originally recorded, and \$5.7 million of discrete interest accruals for unrecognized tax benefits.

The Company's effective tax rate for the nine months ended March 30, 2019 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, partially offset by \$21.0 million of discrete charges for the Transition Tax, tax generated by the GILTI provisions, \$15.1 million of discrete interest accruals for unrecognized tax benefits, and \$4.8 million of discrete charges for differences between the Company's fiscal year 2018 tax returns and the tax provision originally recorded.

The Company's federal statutory tax rate for fiscal year 2018 was 28.1%. The Company's effective tax rate for the three months ended March 31, 2018, 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 \$4.6 million of discrete excess tax benefits generated by the settlement of share-based awards, partially offset by \$5.1 million of discrete interest accruals for unrecognized tax benefits.

The Company's effective tax rate for the nine months ended March 31, 2018 was higher than the statutory rate primarily due to a \$236.9 million discrete provisional charge for the Transition Tax, a \$13.7 million discrete charge to remeasure deferred taxes as of the enactment date of the Act, and \$13.1 million of discrete interest accruals for unrecognized tax benefits, partially offset by earnings of foreign subsidiaries, generated primarily by the Company's international operations managed in Ireland, that were taxed at lower rates and \$8.3 million of discrete excess tax benefits generated by the settlement of share-based awards.

The Company engages in continuous discussions and negotiations with tax authorities regarding tax matters in various jurisdictions. It is reasonably possible that gross unrecognized tax benefits, including accrued interest and penalties, could decrease up to \$448 million within the next twelve months, primarily due to the completion of federal tax audits, including any administrative appeals. The \$448 million primarily relates to matters involving federal taxation of cross-border transactions.

The Company's federal corporate income tax returns are audited on a recurring basis by the Internal Revenue Service ("IRS"). The IRS 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 included 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 disagreed 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. In May 2018, a preliminary understanding was reached with the IRS regarding the contested issues for the audit and post-audit years, which the Company expects may be finalized in fiscal year 2019 with the execution of a closing agreement. In June 2018, the Company made advance payments for audit and post-audit years tax of \$140.7 million and interest of \$37.4 million. These payments will reduce the accrual of interest on audit and post-audit years tax deficiencies that would be owed if the preliminary understanding is finalized. The Company's reserves for unrecognized tax benefits are sufficient to cover the audit and post-audit years tax deficiencies that would be owed as a result of the preliminary understanding. 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. In the first quarter of fiscal year 2019, the Company was notified that the IRS will commence an audit of the Company's federal corporate income tax returns for fiscal years 2015 through 2016.

#### 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.

#### 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 did not have an expiration date and the pace of repurchase activity depended 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 repurchase authorization.

On October 30, 2018, the Board of Directors of the Company authorized the repurchase of up to \$1.5 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 repurchase authorization.

During the nine months ended March 30, 2019, the Company repurchased approximately 8.0 million shares of its common stock for \$437.0 million. As of March 30, 2019, the Company had remaining authorization of \$1.2 billion 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: ACQUISITION

On January 26, 2018, the Company acquired a privately-held corporation specializing in the development of high-performance USB and video extension technology. Total cash consideration paid in connection with this acquisition was \$57.8 million, net of cash acquired. The Company also agreed to pay up to an additional \$16.0 million if the acquired business achieves certain financial milestones for the annual period ended August 31, 2018 and annual period ending August 31, 2019. Out of the \$16.0 million, \$8.0 million was paid during the nine months ended March 30, 2019. The acquired assets included \$26.0 million of developed technology and \$10.5 million of other intangible assets. The Company also recorded \$41.9 million of goodwill in connection with this acquisition. The goodwill is not deductible for tax purposes.

#### NOTE 14: 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.

There were no changes to goodwill for the nine months ended March 30, 2019.

No indicators or instances of impairment were identified in the nine months and fiscal year ended March 30, 2019 and June 30, 2018, respectively.

Intangible assets consisted of the following:

|                                               | March 30,<br>2019 |                             |          | June 30,<br>2018 |                             |          |
|-----------------------------------------------|-------------------|-----------------------------|----------|------------------|-----------------------------|----------|
|                                               | Original<br>Cost  | Accumulated<br>Amortization | Net      | Original<br>Cost | Accumulated<br>Amortization | Net      |
|                                               | (in thousands)    |                             |          |                  |                             |          |
| Intellectual property                         | \$488,846         | \$ 443,020                  | \$45,826 | \$485,465        | \$ 423,869                  | \$61,596 |
| Customer relationships                        | 116,505           | 105,229                     | 11,276   | 116,294          | 103,217                     | 13,077   |
| Trade name                                    | 9,974             | 8,830                       | 1,144    | 9,340            | 8,588                       | 752      |
| Patents                                       | 2,500             | 2,500                       | —        | 2,500            | 2,469                       | 31       |
| Total amortizable purchased intangible assets | 617,825           | 559,579                     | 58,246   | 613,599          | 538,143                     | 75,456   |

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|                                           |           |            |          |           |            |          |
|-------------------------------------------|-----------|------------|----------|-----------|------------|----------|
| In-process research & development (IPR&D) | 2,790     | —          | 2,790    | 2,790     | —          | 2,790    |
| Total purchased intangible assets         | \$620,615 | \$ 559,579 | \$61,036 | \$616,389 | \$ 538,143 | \$78,246 |

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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<br>Ended<br>March 31,<br>2019 2018 |           | Nine Months<br>Ended<br>March 30, March 31,<br>2019 2018 |           |
|----------------------------------------------|-------------------------------------------------|-----------|----------------------------------------------------------|-----------|
|                                              | (in thousands)                                  |           |                                                          |           |
| Cost of goods sold                           | \$5,368                                         | \$ 12,101 | \$ 19,151                                                | \$ 34,305 |
| Intangible asset amortization                | 756                                             | 876       | 2,285                                                    | 3,623     |
| Total intangible asset amortization expenses | \$6,124                                         | \$ 12,977 | \$ 21,436                                                | \$ 37,928 |

The following table represents the estimated future amortization expense of intangible assets as of March 30, 2019:

| Fiscal Year                    | Amount<br>(in<br>thousands) |
|--------------------------------|-----------------------------|
| Remaining three months of 2019 | \$ 4,793                    |
| 2020                           | 15,068                      |
| 2021                           | 13,368                      |
| 2022                           | 7,689                       |
| 2023                           | 7,205                       |
| Thereafter                     | 10,123                      |
| Total intangible assets        | \$ 58,246                   |

## 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. We also utilize third party foundries for manufacturing of our products. The major end-markets in which our products are sold are the Automotive, Communications and Data Center, Computing, Consumer and Industrial markets.

### 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 30, 2018. 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.

Except for the accounting policies and estimates outlined under Part I, Item 1. Financial Statements - Note 2, there have been no material changes during the nine months ended March 30, 2019 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 30, 2018.



## 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<br>Ended<br>March 30,<br>2019 |         |  | Nine Months<br>Ended<br>March 31,<br>2019 |         |  |
|------------------------------------------|--------------------------------------------|---------|--|-------------------------------------------|---------|--|
|                                          | March 31,<br>2018                          |         |  | March 31,<br>2018                         |         |  |
| Net revenues                             | 100.0 %                                    | 100.0 % |  | 100.0 %                                   | 100.0 % |  |
| Cost of goods sold                       | 37.2 %                                     | 34.6 %  |  | 34.9 %                                    | 34.6 %  |  |
| Gross margin                             | 62.8 %                                     | 65.4 %  |  | 65.1 %                                    | 65.4 %  |  |
| Operating expenses:                      |                                            |         |  |                                           |         |  |
| Research and development                 | 19.7 %                                     | 17.6 %  |  | 18.8 %                                    | 18.3 %  |  |
| Selling, general and administrative      | 13.7 %                                     | 12.5 %  |  | 13.3 %                                    | 13.0 %  |  |
| Intangible asset amortization            | 0.1 %                                      | 0.1 %   |  | 0.1 %                                     | 0.2 %   |  |
| Impairment of long-lived assets          | — %                                        | — %     |  | — %                                       | — %     |  |
| Severance and restructuring expenses     | 0.3 %                                      | 0.4 %   |  | 0.2 %                                     | 0.8 %   |  |
| Other operating expenses (income), net   | — %                                        | — %     |  | — %                                       | (0.1 )% |  |
| Total operating expenses                 | 33.8 %                                     | 30.6 %  |  | 32.4 %                                    | 32.2 %  |  |
| Operating income                         | 29.0 %                                     | 34.7 %  |  | 32.6 %                                    | 33.2 %  |  |
| Interest and other income (expense), net | 0.6 %                                      | (0.4 )% |  | 0.2 %                                     | (0.5 )% |  |
| Income before provision for income taxes | 29.6 %                                     | 34.3 %  |  | 32.8 %                                    | 32.7 %  |  |
| Income tax provision (benefit)           | 5.5 %                                      | 4.4 %   |  | 6.6 %                                     | 17.8 %  |  |
| Net income                               | 24.1 %                                     | 29.9 %  |  | 26.2 %                                    | 14.9 %  |  |

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<br>Ended<br>March 30,<br>2019 |       |  | Nine Months<br>Ended<br>March 31,<br>2019 |       |  |
|-------------------------------------|--------------------------------------------|-------|--|-------------------------------------------|-------|--|
|                                     | March 31,<br>2018                          |       |  | March 31,<br>2018                         |       |  |
| Cost of goods sold                  | 0.5 %                                      | 0.4 % |  | 0.4 %                                     | 0.4 % |  |
| Research and development            | 2.0 %                                      | 1.6 % |  | 1.7 %                                     | 1.5 % |  |
| Selling, general and administrative | 1.7 %                                      | 1.2 % |  | 1.5 %                                     | 1.3 % |  |
|                                     | 4.2 %                                      | 3.2 % |  | 3.6 %                                     | 3.2 % |  |

## Net Revenues

Net revenues were \$542.4 million and \$648.6 million for the three months ended March 30, 2019 and March 31, 2018, respectively. Revenue from consumer products was down by 27%, mainly due to lower shipments in cell phone and home entertainment products, partially offset by higher shipments in wearable products. Revenue from industrial products was down by 18%, mainly due to a decline in shipments of control, automation and automatic test equipment products. Revenue from communications and data center products was down by 22%, due to generally lower shipments of server, network and data center products. These declines were partially offset by an increase in revenue from automotive products. Revenue from automotive products was up by 5%, driven by higher demand for battery management systems and driver assistance content.

Net revenues were \$1.8 billion for both the nine months ended March 30, 2019 and March 31, 2018. Revenue from automotive products was up by 7%, driven by higher demand for battery management systems and driver assistance content. Revenue from communications and data center products was down by 12% due to generally lower shipments of network, server, and data center products. Revenue from industrial products was down by 7%, driven by lower demand for control, automation, security and other industrial products, partially offset by higher demand for USB extension products. Revenue from consumer products was down by 6%, driven by lower demand for cell phone and home entertainment products, partially offset by higher demand for wearable

and handheld computing products. The decrease in revenues in these markets was partially driven by the 13-week second quarter of fiscal year 2019, compared to the 14-week second quarter of fiscal year 2018. In addition, there was a one-time incremental \$22.0 million of revenue recognized as a result of the sell-in accounting revenue transition during the second quarter of fiscal 2018.

During both the three months ended March 30, 2019 and March 31, 2018, approximately 88% of net revenues, were derived from customers outside of the United States. While less than 1.0% of our sales are denominated in currencies other than U.S. dollars, we enter into foreign currency forward contracts to mitigate our risks on firm commitments and net monetary assets denominated in foreign currencies. The impact of changes in foreign exchange rates on our revenue and results of operations for the three months ended March 30, 2019 and March 31, 2018 was immaterial.

#### Gross Margin

Our gross margin percentages were 62.8% and 65.4% for the three months ended March 30, 2019 and March 31, 2018, respectively. Our gross margin decreased by 2.6 percentage points, primarily due to higher inventory reserves.

Our gross margin percentages were 65.1% and 65.4% for the nine months ended March 30, 2019 and March 31, 2018, respectively. Our gross margin decreased by 0.3 percentage points, primarily due to higher inventory reserves.

#### Research and Development

Research and development expenses were \$107.1 million and \$114.4 million for the three months ended March 30, 2019 and March 31, 2018, respectively, which represented 19.7% and 17.6% of net revenues for each respective period. The \$7.3 million decrease was due to lower salaries and related personnel expenses.

Research and development expenses were \$330.1 million and \$338.9 million for the nine months ended March 30, 2019 and March 31, 2018, respectively, which represented 18.8% and 18.3% of net revenues for each respective period. The \$8.8 million decrease was due to lower salaries and related personnel expenses.

#### Selling, General and Administrative

Selling, general and administrative expenses were \$74.1 million and \$81.3 million for the three months ended March 30, 2019 and March 31, 2018, respectively, which represented 13.7% and 12.5% of net revenues for each respective period. The \$7.2 million decrease was due to lower salaries and related personnel expenses.

Selling, general and administrative expenses were \$233.5 million and \$240.3 million for the nine months ended March 30, 2019 and March 31, 2018, respectively, which represented 13.3% and 13.0% of net revenues for each respective period. The \$6.8 million decrease was due to lower salaries and related personnel expenses.

#### Severance and Restructuring Expenses

Severance and restructuring expenses were \$1.7 million and \$2.3 million for the three months ended March 30, 2019 and March 31, 2018, respectively, which represented 0.3% and 0.4% of net revenues for each respective period. The \$0.5 million decrease was primarily due to a decrease in restructuring activities.

Severance and restructuring expenses were \$3.9 million and \$14.2 million for the nine months ended March 30, 2019 and March 31, 2018, respectively, which represented 0.2% and 0.8% of net revenues for each respective period. The \$10.3 million decrease was primarily due to a decrease in restructuring activities.

Provision for Income Taxes

In the three and nine months ended March 30, 2019, the Company recorded an income tax provision of \$29.8 million and \$116.8 million, respectively, compared to \$28.7 million and \$328.0 million for the three and nine months ended March 31, 2018, respectively. The Company's effective tax rate for the three and nine months ended March 30, 2019 was 18.6% and 20.3%, respectively, compared to 12.9% and 54.6% for the three and nine months ended March 31, 2018, respectively.

On December 22, 2017 legislation, commonly referred to as the Tax Cuts and Jobs Act (the "Act"), was enacted. The Act included a one-time tax on accumulated unremitted earnings of our foreign subsidiaries ("Transition Tax"). SEC Staff Accounting Bulletin

No. 118 allowed the use of provisional amounts (reasonable estimates) if accounting for the income tax effects of the Act was not completed. Provisional amounts must be adjusted within a one-year measurement period from the enactment date of the Act. In the second quarter of fiscal year 2018, the Company recorded a discrete \$236.9 million provisional Transition Tax charge. During the measurement period the Company gathered information and analyzed available guidance to more precisely compute the amount of the Transition Tax. In the second quarter of fiscal year 2019 the Company completed this work and recorded a discrete \$22.1 million measurement period adjustment for the Transition Tax, which increased the Company's effective tax rate for the nine months ended March 30, 2019 by 3.8%. As of the end of the second quarter of fiscal year 2019 accounting for the income tax effects of the Act were completed.

The Act reduced the federal statutory tax rate from 35% to 21%, effective January 1, 2018, which resulted in a fiscal year 2018 federal statutory tax rate of 28.1% for the Company (average of a 35% rate for the first half of fiscal year 2018 and a 21% rate for the second half of fiscal year 2018). The Company's federal statutory tax rate for fiscal year 2019 is 21%. In the second quarter of fiscal year 2018 the Company recorded a \$13.7 million discrete charge to remeasure deferred tax assets and liabilities as of the enactment date of the Act to reflect the federal statutory tax rate reductions.

The Act included Global Intangible Low-Taxed Income ("GILTI") provisions, which first impact the Company in fiscal year 2019. The GILTI provisions effectively subject income earned by the Company's foreign subsidiaries to current U.S. tax at a rate of 10.5%, less foreign tax credits. The Company has elected to treat tax generated by the GILTI provisions as a period expense.

The Company's federal statutory tax rate for fiscal year 2019 is 21%. The Company's effective tax rate for the three months ended March 30, 2019 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, partially offset by tax generated by the GILTI provisions, a \$4.1 million discrete charge for differences between our fiscal year 2018 tax returns and the tax provision originally recorded, and \$5.7 million of discrete interest accruals for unrecognized tax benefits.

The Company's effective tax rate for the nine months ended March 30, 2019 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, partially offset by \$21.0 million of discrete charges for the Transition Tax, tax generated by GILTI provisions, \$15.1 million of discrete interest accruals for unrecognized tax benefits, and \$4.8 million of discrete charges for differences between our fiscal year 2018 tax returns and the tax provision originally recorded.

The Company's federal statutory tax rate for fiscal year 2018 was 28.1%. The Company's effective tax rate for the three months ended March 31, 2018 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 \$4.6 million of discrete excess tax benefits generated by the settlement of share-based awards, partially offset by \$5.1 million of discrete interest accruals for unrecognized tax benefits.

The Company's effective tax rate for the nine months ended March 31, 2018 was higher than the statutory rate primarily due to a \$236.9 million discrete provisional charge for the Transition Tax, a \$13.7 million discrete charge to remeasure deferred taxes as of the enactment date of the Act, and \$13.1 million of discrete interest accruals for unrecognized tax benefits, partially offset by earnings of foreign subsidiaries, generated primarily by the Company's international operations managed in Ireland, that were taxed at lower rates and \$8.3 million of discrete excess tax benefits generated by the settlement of share-based awards.

## BACKLOG

As of March 30, 2019 and June 30, 2018, our current quarter backlog was approximately \$398.8 million and \$441.1 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 distribution ship and debit pricing adjustments.

## FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

### Financial Condition

Cash flows were as follows:

|                                                      | Nine Months Ended |                |
|------------------------------------------------------|-------------------|----------------|
|                                                      | March 30, 2019    | March 31, 2018 |
|                                                      | (in thousands)    |                |
| Net cash provided by (used in) operating activities  | \$638,373         | \$672,805      |
| Net cash provided by (used in) investing activities  | 785,387           | (708,819 )     |
| Net cash provided by (used in) financing activities  | (1,312,681)       | (580,514 )     |
| Net increase (decrease) in cash and cash equivalents | \$111,079         | \$(616,528)    |
| 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 \$638.4 million in the nine months ended March 30, 2019, a decrease of \$34.4 million compared with the nine months ended March 31, 2018. This decrease was due to changes in working capital and adjustments for non-cash items, partially offset by higher net income.

### Investing activities

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

Cash provided by investing activities was \$785.4 million for the nine months ended March 30, 2019, compared with cash used in investing activities of \$708.8 million for the nine months ended March 31, 2018, a change of \$1.5 billion. The change was due to lower purchases of and higher proceeds from maturity of available-for-sale securities.

### 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 \$732.2 million for the nine months ended March 30, 2019 compared to the nine months ended March 31, 2018. The increase was due to the repayment of the November 2018 Notes and repurchases of our common stock.

### Liquidity and Capital Resources

As of March 30, 2019, our available funds consisted of \$1.9 billion in cash, cash equivalents and short-term investments. We anticipate that the available funds and cash generated from operations will be sufficient to meet cash and working capital requirements, including the anticipated level of capital expenditures, common stock repurchases, debt repayments and dividend payments for at least the next twelve months.

In November 2018, the Company repaid \$500.0 million of principal and related outstanding interest of the Company's 2.5% coupon notes.

In January 2019, the Company terminated its \$350.0 million revolving credit facility with certain institutional lenders.

On October 30, 2018, we were authorized to repurchase up to \$1.5 billion of the Company's common stock. During the three and nine months ended March 30, 2019, we repurchased an aggregate of \$117.0 million and \$437.0 million, respectively, of the Company's common stock.

During the three and nine months ended March 30, 2019, we paid cash dividends of \$0.46 and \$1.38 per common share totaling \$125.6 million and \$380.2 million, respectively.

#### Off-Balance-Sheet Arrangements

As of March 30, 2019, we 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 30, 2018.

The impact of inflation and changing prices on the Company's net revenues and on operating income during the three and nine months ended March 30, 2019 and March 31, 2018 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 March 30, 2019. Our management, including the CEO and the CFO, has concluded that the Company's disclosure controls and procedures were effective as of March 30, 2019. 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 March 30, 2019 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 30, 2018, which is incorporated herein by reference.

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

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 did not have an expiration date and the pace of repurchase activity depended on factors such as current stock price, levels of cash generation from operations, cash requirements, and other factors. The Company's prior repurchase authorization was cancelled and superseded by this repurchase authorization.

On October 30, 2018, the Board of Directors of the Company authorized the repurchase of up to \$1.5 billion of the Company's common stock. This 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 was cancelled and superseded by this new repurchase authorization.

The following table summarizes the activity related to stock repurchases for the three months ended March 30, 2019:

| Issuer Repurchases of Equity Securities<br>(in thousands, except per share amounts) |                                              |                                       |                                                                                                          |                                                                                                                  |
|-------------------------------------------------------------------------------------|----------------------------------------------|---------------------------------------|----------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------|
|                                                                                     | Total<br>Number<br>of<br>Shares<br>Purchased | Average<br>Price<br>Paid per<br>Share | Total<br>Number of<br>Shares<br>Purchased<br>as Part of<br>Publicly<br>Announced<br>Plans or<br>Programs | Approximate<br>Dollar Value<br>of Shares<br>That May<br>Yet Be<br>Purchased<br>Under the<br>Plans or<br>Programs |
| Dec 30, 2018 - Jan 26, 2019                                                         | 1,076                                        | \$ 51.03                              | 1,076                                                                                                    | \$ 1,279,163                                                                                                     |
| Jan 27, 2019 - Feb 23, 2019                                                         | 769                                          | 55.05                                 | 769                                                                                                      | 1,236,842                                                                                                        |
| Feb 24, 2019 - Mar 30, 2019                                                         | 365                                          | 54.18                                 | 365                                                                                                      | 1,217,087                                                                                                        |
| Total for the quarter                                                               | 2,210                                        | \$ 52.95                              | 2,210                                                                                                    | \$ 1,217,087                                                                                                     |

In the fiscal quarter ended March 30, 2019, the Company repurchased approximately 2.2 million shares of its common stock for approximately \$117.0 million. As of March 30, 2019, the Company had remaining authorization of \$1.2 billion 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

None.

ITEM 6: EXHIBITS

(a) Exhibits

31.1      Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act (1)

31.2      Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act (1)

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)

EX-101.INS XBRL INSTANCE DOCUMENT (1)

EX-101.SCH XBRL TAXONOMY EXTENSION SCHEMA DOCUMENT (1)

EX-101.CAL XBRL TAXONOMY EXTENSION CALCULATION LINKBASE DOCUMENT (1)

EX-101.DEF XBRL TAXONOMY EXTENSION DEFINITION LINKBASE DOCUMENT (1)

EX-101.LAB XBRL TAXONOMY EXTENSION LABEL LINKBASE DOCUMENT (1)

EX-101.PRE XBRL TAXONOMY EXTENSION PRESENTATION LINKBASE DOCUMENT (1)

(1) Filed

or

furnished

herewith.

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 registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

May 1, 2019 MAXIM INTEGRATED PRODUCTS, INC.

By:/s/ Bruce E. Kiddoo

Bruce E. Kiddoo

Senior Vice President, Chief Financial Officer and Chief Accounting Officer