MAXIM INTEGRATED PRODUCTS INC
Form 10-Q
February 03, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q
(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended December 28, 2013

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ________ to ________.

Commission file number 1-34192
MAXIM INTEGRATED PRODUCTS, INC.
(Exact name of Registrant as Specified in its Charter)

Delaware (State or Other Jurisdiction of Incorporation or Organization)	94-2896096 (I.R.S. Employer I. D. No.)

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 [x] NO [ ]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES [x] NO [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of “large accelerated filer,” “accelerated filer” and “smaller” reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer [x]	Accelerated filer [ ]	Non-accelerated filer [ ] (Do not check if a smaller reporting company)	Smaller reporting company [ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). (Check one):
YES [ ] NO [x]

As of January 27, 2014 there were 282,066,140 shares of Common Stock, par value $.001 per share, of the registrant outstanding.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

MAXIM INTEGRATED PRODUCTS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	December 28, 2013	June 29, 2013
	(in thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents	$1,149,909	$1,174,986
Short-term investments	—	25,060
Total cash, cash equivalents and short-term investments	1,149,909	1,200,046
Accounts receivable, net	288,285	285,438
Inventories	297,234	275,640
Deferred tax assets	69,154	82,173
Other current assets	85,554	96,609
Total current assets	1,890,136	1,939,906
Property, plant and equipment, net	1,372,393	1,373,124
Intangible assets, net	404,652	157,146
Goodwill	596,898	422,004
Other assets	42,803	43,730
TOTAL ASSETS	$4,306,882	$3,935,910
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$99,009	$105,322
Income taxes payable	21,717	22,437
Accrued salary and related expenses	140,738	187,970
Accrued expenses	91,145	60,592
Current portion of long-term debt	2,965	2,015
Deferred revenue on shipments to distributors	25,542	26,557
Total current liabilities	381,116	404,893
Long-term debt	1,000,871	503,573
Income taxes payable	337,053	282,697
Deferred tax liabilities	202,435	206,855
Other liabilities	29,343	29,894
Total liabilities	1,950,818	1,427,912
Commitments and contingencies (Note 11)		
Stockholders' equity:		
Common stock and capital in excess of par value	283	288
Retained earnings	2,368,350	2,523,457
Accumulated other comprehensive loss	(12,569)	(15,747)
Total stockholders' equity	2,356,064	2,507,998

TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	$4,306,882	$3,935,910

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		Six Months Ended	
	December 28, 2013	December 29, 2012	December 28, 2013	December 29, 2012
	(in thousands, except per share data)			
Net revenues	$620,274	$605,306	$1,205,515	$1,228,381
Cost of goods sold	291,602	241,931	529,647	479,315
Gross margin	328,672	363,375	675,868	749,066
Operating expenses:				
Research and development	142,971	135,742	272,873	268,672
Selling, general and administrative	83,471	80,058	160,901	160,245
Intangible asset amortization	4,968	3,903	8,404	7,952
Impairment of long-lived assets	5,197	22,222	5,197	24,929
Severance and restructuring expenses	10,227	2,236	15,774	2,236
Acquisition-related costs	4,137	—	7,071	—
Other operating expenses (income), net	7,307	1,666	6,645	2,081
Total operating expenses	258,278	245,827	476,865	466,115
Operating income	70,394	117,548	199,003	282,951
Interest and other income (expense), net	(5,833)	(2,798)	(9,296)	(8,540)
Income before provision for income taxes	64,561	114,750	189,707	274,411
Provision for income taxes	20,208	38,128	42,234	69,901
Net income	$44,353	$76,622	$147,473	$204,510
Earnings per share:				
Basic	$0.16	$0.26	$0.52	$0.70
Diluted	$0.15	$0.26	$0.51	$0.68
Shares used in the calculation of earnings per share:				
Basic	282,664	292,075	283,659	292,143
Diluted	288,565	298,759	289,371	298,704
Dividends paid per share	$0.26	$0.24	$0.52	$0.48

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended		Six Months Ended	
	December 28, 2013	December 29, 2012	December 28, 2013	December 29, 2012
	(in thousands)			
Net income	$44,353	$76,622	$147,473	$204,510
Other comprehensive income, net of tax:				
Change in net unrealized gains and losses on available-for-sale securities	(15)	(67)	(23)	(102)
Change in net unrealized gains and losses on cash flow hedges	(667)	(202)	557	383
Change in net unrealized gains and losses on post-retirement benefits	283	203	567	1,254
Tax effect of the unrealized exchange gains and losses on long-term intercompany receivables	1,939	(466)	2,077	(1,548)
Other comprehensive income (loss)	1,540	(532)	3,178	(13)
Total comprehensive income	$45,893	$76,090	$150,651	$204,497

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Six Months Ended	
	December 28, 2013	December 29, 2012
	(in thousands)	
Cash flows from operating activities:		
Net income	$147,473	$204,510
Adjustments to reconcile net income to net cash provided by operating activities:		
Stock-based compensation	41,609	45,342
Depreciation and amortization	115,537	105,554
Deferred taxes	13,824	9,793
Loss (gain) from sale of property, plant and equipment	301	(139)
Tax benefit (shortfall) related to stock-based compensation	(4,214)	6,522
Impairment of long lived assets	5,197	24,929
Excess tax benefit from stock-based compensation	(4,156)	(11,834)
Changes in assets and liabilities:		
Accounts receivable	20,606	52,916
Inventories	11,729	(15,445)
Other current assets	11,784	(3,748)
Accounts payable	(12,414)	(36,002)
Income taxes payable	30,395	47,938
Deferred revenue on shipments to distributors	(1,015)	(918)
All other accrued liabilities	(46,331)	(37,576)
Net cash provided by (used in) operating activities	330,325	391,842
Cash flows from investing activities:		
Purchase of property, plant and equipment	(82,462)	(112,805)
Proceeds from sale of property, plant and equipment	3,048	4,459
Payments in connection with business acquisition, net of cash acquired	(453,506)	—
Proceeds from maturity of available-for-sale securities	27,000	—
Net cash provided by (used in) investing activities	(505,920)	(108,346)
Cash flows from financing activities:		
Excess tax benefit from stock-based compensation	4,156	11,834
Contingent consideration paid	(4,601)	(7,476)
Repayment of notes payable	(1,839)	(298)
Issuance of debt	497,895	—
Debt issuance cost	(3,431)	—
Net issuance of restricted stock units	(14,072)	(13,645)
Proceeds from stock options exercised	13,869	39,214
Issuance of ESPP shares under employee stock purchase program	19,096	16,768
Repurchase of common stock	(213,487)	(115,584)
Dividends paid	(147,068)	(140,262)
Net cash provided by (used in) financing activities	150,518	(209,449)
Net increase (decrease) in cash and cash equivalents	(25,077)	74,047
Cash and cash equivalents:		

Beginning of period	1,174,986	881,060
End of period	$1,149,909	$955,107
Supplemental disclosures of cash flow information:		
Cash paid (refunded), net during the period for income taxes	$(17,269)	$7,397
Cash paid for interest	$8,316	$5,282
Noncash financing and investing activities:		
Accounts payable related to property, plant and equipment purchases	$13,058	$25,490

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 presentation have been included. The year-end condensed consolidated balance sheet data were derived from audited consolidated financial statements but do not include all disclosures required by GAAP. The results of operations for the six months ended December 28, 2013 are not necessarily indicative of the results to be expected for the entire year. These condensed consolidated interim financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in the Annual Report on Form 10-K for the fiscal year ended June 29, 2013. The Condensed Consolidated Financial Statements included in this Quarterly Report include the financial results of Volterra Semiconductor Corporation (“Volterra”) prospectively from the date of acquisition. Refer to Note 13: "Acquisition" of these Notes to Condensed Consolidated Financial Statements for further discussion in relation to Volterra.

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 years 2014 and 2013 are 52-week fiscal years.

NOTE 2: RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

(i) New Accounting Updates Recently Adopted

In the first quarter of fiscal year 2014, the Company adopted Accounting Standards Update (“ASU”) No. 2013-02, Comprehensive Income (Topic 220)- Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income that requires reclassification adjustments from other comprehensive income to be presented either in the financial statements or in the notes to the financial statements. The adoption of this amended standard resulted in the presentation of the reclassification adjustments on the face of the Condensed Consolidated Statements of Comprehensive Statements and did not change the current requirements for reporting net income or other comprehensive income in the Condensed Consolidated Financial Statements.

(ii) Recent Accounting Updates Not Yet Effective

In July 2013, the Financial Accounting Standards Board (“FASB”) issued ASU No. 2013-11, Income Taxes (Topic 740)-Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists (“ASU 2013-11”). ASU 2013-11 requires certain unrecognized tax benefits to be presented as reductions to deferred tax assets instead of liabilities on the Condensed Consolidated Balance Sheets. The Company will be required to adopt ASU 2013-11 on a prospective basis in the first quarter of fiscal year 2015; however, early adoption is permitted, as is a retrospective application. The Company is currently evaluating the impact of this new standard on its Condensed Consolidated Balance Sheets.

NOTE 3: BALANCE SHEET COMPONENTS

Accounts receivable, net consists of:

	December 28, 2013	June 29, 2013
Accounts Receivable:	(in thousands)	
Accounts receivable	$305,260	$299,083
Returns and allowances	(16,975)	(13,645)
	$288,285	$285,438

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Inventories consist of:

	December 28, 2013	June 29, 2013
Inventories:	(in thousands)	
Raw materials	$17,180	$14,055
Work-in-process	203,198	184,511
Finished goods	76,856	77,074
	$297,234	$275,640

Property, plant and equipment, net consists of:

	December 28, 2013	June 29, 2013
Property, plant and equipment:	(in thousands)	
Land	$62,093	$62,093
Buildings and building improvements	368,393	364,037
Machinery and equipment	2,136,270	2,099,301
	2,566,756	2,525,431
Less: accumulated depreciation and amortization	(1,194,363)	(1,152,307)
	$1,372,393	$1,373,124

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 certificates of deposit, government agency securities and foreign currency forward contracts.

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

The Company’s Level 3 consists of contingent consideration liability related to certain prior years’ acquisitions and certain long-lived assets written down to fair value during the period.

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

	As of December 28, 2013 Fair Value Measurements Using			Total Balance	As of June 29, 2013 Fair Value Measurements Using			Total Balance
	Level 1	Level 2	Level 3		Level 1	Level 2	Level 3	
	(in thousands)							
Assets								
Money market funds (1)	$696,732	$—	$—	$696,732	$402,513	$—	$—	$402,513
Certificates of deposit (1)	—	—	—	—	—	77	—	77
Government agency securities (2)	—	—	—	—	—	25,060	—	25,060
Foreign currency forward contracts (3)	—	521	—	521	—	187	—	187
Total Assets	$696,732	$521	$—	$697,253	$402,513	$25,324	$—	$427,837
Liabilities								
Foreign currency forward contracts (4)	$—	$838	$—	$838	$—	$1,419	$—	$1,419
Contingent Consideration (4)	—	—	5,469	5,469	—	—	8,577	8,577
Total Liabilities	$—	$838	$5,469	$6,307	$—	$1,419	$8,577	$9,996

(1) Included in Cash and cash equivalents in the accompanying Condensed Consolidated Balance Sheets.
(2) Included in Short-term investments in the accompanying Condensed Consolidated Balance Sheets.
(3) Included in Other current assets in the accompanying Condensed Consolidated Balance Sheets.
(4) Included in Accrued expenses in the accompanying Condensed Consolidated Balance Sheets.

The tables below present reconciliations for liabilities measured and recorded at fair value on a recurring basis using significant unobservable inputs (Level 3) for the six months ended December 28, 2013 and December 29, 2012:

Fair Value Measured and Recorded Using Significant Unobservable Inputs (Level 3)

	December 28, 2013	December 29, 2012
Contingent Consideration	(in thousands)	
Beginning balance	$8,577	$17,737
Total gains or losses (realized and unrealized):		
Included in earnings	1,493	2,334
Payments	(4,601)	(7,476)
Ending balance	$5,469	$12,595
Changes in unrealized losses (gains) included in earnings related to liabilities still held as of period end	$1,493	$2,334

The valuation of contingent consideration is based on a probability weighted earnout model which relies primarily on estimates of milestone achievements and discount rates applicable for the period expected payout. The most significant unobservable input used in the determination of estimated fair value of contingent consideration is the estimates on the likelihood of milestone achievements, which directly correlates to the fair value recognized in the Condensed Consolidated Balance Sheets.

The fair value of this liability is estimated quarterly by management based on inputs received from the Company's engineering and finance personnel. The determination of the milestone achievement is performed by the Company's business units and reviewed by the accounting department. Potential valuation adjustments are made as the progress toward achieving milestones becomes determinable, with the impact of such adjustments being recorded to Other operating expenses (income), net.

During the six months ended December 28, 2013 and the year ended June 29, 2013, there were no transfers in or out of Level 3 from other levels in the fair value hierarchy.

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

As of December 28, 2013, certain long-lived assets including manufacturing equipment and held for sale assets were written down to fair value and fair value less cost to sell, respectively, resulting in an impairment loss of $5.2 million which was included in earnings for the period. The impairment charge was measured using Level 3 inputs. Fair value was determined mainly after consideration of evidence such as broker estimates, assets' condition and offers received. Refer to Note 15: "Impairment of Long-Lived Assets" of these Notes to Condensed Consolidated Financial Statements.

As of June 29, 2013, none of the Company's assets and liabilities was measured at fair value on a non-recurring basis.

NOTE 5: FINANCIAL INSTRUMENTS

Short-term investments
Fair values were as follows:

	December 28, 2013				June 29, 2013			
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Estimated Fair Value	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Estimated Fair Value
	(in thousands)							
Available-for-sale investments								
Government agency securities	$—	$—	$—	$—	$25,024	$36	$—	$25,060
Total available-for-sale investments	$—	$—	$—	$—	$25,024	$36	$—	$25,060

In the six months ended December 28, 2013 and the year ended June 29, 2013, the Company did not recognize any impairment charges on short-term investments.
The government agency securities matured on December 18, 2013.
Derivative instruments and hedging activities

The Company generates less than 5% of its revenues in various global markets based on orders obtained in non-U.S. currencies, primarily the Japanese Yen, the Euro and the British Pound. The Company incurs expenditures denominated in non-U.S. currencies, principally the Philippine Peso and Thai Baht associated with the Company’s manufacturing activities in the Philippines and Thailand, respectively, and expenditures for sales offices and research and development activities undertaken outside of the U.S.

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 ASC 815 Derivatives and Hedging. As of December 28, 2013 and June 29, 2013, respectively, the notional amounts of the forward contracts we held to purchase U.S. Dollars in exchange for other international currencies were $49.0 million and $53.8 million, respectively, and the notional amounts of forward contracts we held to sell U.S. Dollars in exchange for other international currencies were $3.4 million and $3.2 million, respectively.

Derivatives not designated as hedging instruments

As of December 28, 2013 and June 29, 2013, respectively, the notional amounts of the forward contracts we held to purchase U.S. Dollars in exchange for other international currencies were $16.0 million and $15.0 million, respectively, and the notional amounts of forward contracts we held to sell U.S. Dollars in exchange for other international currencies were $35.5 million and $36.5 million, respectively. The fair values of our outstanding foreign currency forward contracts and amounts included in the statement of income were not material for six months ended December 28, 2013 and year ended June 29, 2013.

Long-term debt

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

	December 28, 2013	June 29, 2013
	(in thousands)	
3.375% fixed rate notes due March 2023	$500,000	$500,000
2.5% fixed rate notes due November 2018	500,000	—
Notes denominated in Euro		
Term fixed rate notes (2.0%-2.5%) due up to September 2015	2,965	4,804
Amortizing floating rate notes (EURIBOR plus 1.5%) due up to June 2014	871	784
Total	1,003,836	505,588
Less: Current portion	(2,965)	(2,015)
Total long-term debt	$1,000,871	$503,573

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, and are included in the financing activities in the Condensed Consolidated Statements of Cash Flows.

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 2018 Notes and the 2023 Notes are governed by a base indenture, dated June 10, 2010, and supplemental indentures, dated March 18, 2013 with respect to the 2023 Notes and November 21, 2013 with respect to the 2018 Notes, between the Company and Wells Fargo Bank, National Association, as trustee.

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 over the life of the notes. Interest expense associated with the notes was $5.6 million and $2.6 million during the three months ended December 28, 2013 and December 29, 2012, respectively. Interest expense associated with the notes was $9.9 million and $5.2 million during the six months ended December 28, 2013 and December 29, 2012, respectively. The interest expense is recorded in Interest and other income (expense), net in the Condensed Consolidated Statements of Income.

The estimated fair value of the Company’s debt was approximately $958 million as of December 28, 2013. The estimated fair value of the debt is based primarily on observable market inputs and is a Level 2 measurement.

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

The following table shows total stock-based compensation expense by type of award, and the resulting tax effect, included in the Condensed Consolidated Statements of Income for the three and six months ended December 28, 2013 and December 29, 2012:

	Three Months Ended December 28, 2013				December 29, 2012			
	Stock Options	Restricted Stock Units	Employee Stock Purchase Plan	Total	Stock Options	Restricted Stock Units	Employee Stock Purchase Plan	Total
	(in thousands)							
Cost of goods sold	$438	$2,395	$533	$3,366	$477	$2,572	$634	$3,683
Research and development	2,616	8,728	1,153	12,497	2,288	8,401	1,451	12,140
Selling, general and administrative	1,476	4,996	534	7,006	1,286	5,152	584	7,022
Pre-tax stock-based compensation expense	$4,530	$16,119	$2,220	$22,869	$4,051	$16,125	$2,669	$22,845
Less: income tax effect				3,749				3,938
Net stock-based compensation expense				$19,120				$18,907

	Six Months Ended December 28, 2013				December 29, 2012			
	Stock Options	Restricted Stock Units	Employee Stock Purchase Plan	Total	Stock Options	Restricted Stock Units	Employee Stock Purchase Plan	Total
	(in thousands)							
Cost of goods sold	$787	$4,313	$1,008	$6,108	$875	$4,743	$1,053	$6,671
Research and development	4,452	15,168	2,475	22,095	4,117	17,611	2,735	24,463
Selling, general and administrative	2,740	9,523	1,143	13,406	2,841	10,271	1,096	14,208
Pre-tax stock-based compensation expense	$7,979	$29,004	$4,626	$41,609	$7,833	$32,625	$4,884	$45,342
Less: income tax effect				6,478				8,770
Net stock-based compensation expense				$35,131				$36,572

Volterra Substitute Awards

In connection with the Volterra acquisition, the Company issued substitute awards to certain Volterra employees. Substitute awards included options to purchase approximately 673,185 shares of Maxim Integrated's common stock at a weighted-average grant date fair value of approximately $10.56 and a weighted-average exercise price of approximately $22.26 per share and also issued approximately 418,955 restricted stock units with a weighted-average grant date fair value of $29.53. The terms of these awards were substantially the same as granted by Volterra. The intrinsic value of these awards was substantially the same immediately prior to and after the substitution as of October 1, 2013.

Stock Options

The fair value of options granted to employees under the Company's Amended and Restated 1996 Stock Incentive Plan is estimated on the date of grant using the Black-Scholes option valuation model.

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

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

	Stock Options (1)			
	Three Months Ended		Six Months Ended	
	December 28, 2013	December 29, 2012	December 28, 2013	December 29, 2012
Expected holding period (in years)	5.0	5.1	5.3	5.4
Risk-free interest rate	1.5 %	0.7 %	1.4 %	0.7 %
Expected stock price volatility	34.1 %	37.6 %	34.9 %	37.8 %
Dividend yield	3.7 %	3.6 %	3.2 %	3.3 %

(1) Table excludes impact from assumptions used in valuing the Volterra substitute options granted on October 1, 2013 based on an expected holding period of 3.8 years, risk-free interest rate of 1.0%, expected stock price volatility of 27.5% and dividend yield of 3.4%.

The weighted-average fair value of stock options granted was $9.15 and $6.59 per share for the three months ended December 28, 2013 and December 29, 2012, respectively. The weighted-average fair value of stock options granted was $7.44 and $6.26 per share for the six months ended December 28, 2013 and December 29, 2012, respectively.

The following table summarizes outstanding, exercisable and vested and expected to vest stock options as of December 28, 2013 and their activity for the six months ended December 28, 2013:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in Years)	Aggregate Intrinsic Value (1)
Balance at June 29, 2013	20,081,339	$26.00		
Options Granted	2,671,444	27.11		
Volterra substitute options granted	673,185	22.26		
Options Exercised	(739,949)	16.21		
Options Cancelled	(2,365,894)	32.51		
Balance at December 28, 2013	20,320,125	$25.62	3.7	$96,469,224
Exercisable, December 28, 2013	9,202,394	$27.62	1.9	$51,039,289
Vested and expected to vest, December 28, 2013	18,917,227	$25.59	3.6	$93,908,211

(1) Aggregate intrinsic value represents the difference between the exercise price and the closing price per share of the Company's common stock on December 27, 2013, 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 December 28, 2013.

As of December 28, 2013, there was $45.1 million of total unrecognized stock compensation cost related to 11.1 million unvested stock options, which is expected to be recognized over a weighted average period of approximately 3.0 years.

Restricted Stock Units

The fair value of Restricted Stock Units ("RSUs") under the Company's Amended and Restated 1996 Stock Incentive 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 granted was $28.16 and $26.82 per share for the three months ended December 28, 2013 and December 29, 2012, respectively. The weighted-average fair value of RSUs granted was $25.95 and $24.67 per share for the six months ended December 28, 2013 and December 29, 2012, respectively.

The following table summarizes outstanding and expected to vest RSUs as of December 28, 2013 and their activity during the six months ended December 28, 2013:

	Number of Shares		Weighted Average Remaining Contractual Term (in Years)	Aggregate Intrinsic Value (1)
Balance at June 29, 2013	7,965,532			
Restricted stock units granted	2,529,831			
Volterra substitute restricted stock units granted	418,955			
Restricted stock units released	(1,411,774	)		
Restricted stock units cancelled	(459,152	)		
Balance at December 28, 2013	9,043,392		2.9	$259,214,755
Outstanding and expected to vest, December 28, 2013	8,080,689		2.8	$225,693,652

(1) Aggregate intrinsic value for RSUs represents the closing price per share of the Company's common stock on December 27, 2013, the last business day preceding the fiscal quarter-end, multiplied by the number of RSUs outstanding or expected to vest as of December 28, 2013.

The Company withheld shares totaling $7.1 million and $14.2 million in value as a result of employee withholding taxes based on the value of the RSUs on their vesting date for the three and six months ended December 28, 2013, respectively. The total payments for the employees' tax obligations to the taxing authorities are reflected as financing activities within the Condensed Consolidated Statements of Cash Flows.

As of December 28, 2013, there was $154.6 million of unrecognized compensation expense related to 8.6 million unvested RSUs, which is expected to be recognized over a weighted average period of approximately 2.9 years.

Employee Stock Purchase Plan

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

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

	ESPP							
	Three Months Ended				Six Months Ended			
	December 28, 2013		December 29, 2012		December 28, 2013		December 29, 2012	
Expected holding period (in years)	0.5		0.5		0.5		0.5	
Risk-free interest rate	0.1	%	0.1	%	0.1	%	0.1	%
Expected stock price volatility	21.7	%	26.1	%	21.7	%	26.1	%
Dividend yield	3.7	%	3.6	%	3.7	%	3.6	%

As of December 28, 2013, there was $7.8 million of unrecognized compensation expense related to the ESPP.

NOTE 7: EARNINGS PER SHARE

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

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

	Three Months Ended		Six Months Ended	
	December 28, 2013	December 29, 2012	December 28, 2013	December 29, 2012
	(in thousands, except per share data)			
Numerator for basic earnings per share and diluted earnings per share				
Net income	$ 44,353	$ 76,622	$ 147,473	$ 204,510
Denominator for basic earnings per share	282,664	292,075	283,659	292,143
Effect of dilutive securities:				
Stock options, ESPP and RSUs	5,901	6,684	5,712	6,561
Denominator for diluted earnings per share	288,565	298,759	289,371	298,704
Earnings per share				
Basic	$ 0.16			