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Q1 2003 Maxim Integrated Products Earnings Conference Call

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## CORPORATE PARTICIPANTS

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**John Gifford (ph)** *Maxim Integrated Products - President, Chairman, CEO*  
**Alan Hale (ph)** *Vice President, CFO*

## CONFERENCE CALL PARTICIPANTS

**Michael Mando (ph)** *Credit Suisse*  
**Ross Seymour (ph)** *Deutsche Banc*  
**Torey Vonberg (ph)** *US Bankcorp Piper Jaffray*  
**Tristan [INAUDIBLE] (ph)** *Prudential Securities*  
**Lewis Garrity (ph)** *Morgan Stanley*  
**Sydney Hope (ph)** *Wedbush Morgan*  
**Joseph Osha (ph)** *Merrill Lynch*  
**Woody Calleri (ph)** *Midwest Research*  
**Joseph Tow (ph)** *Specific Crest Securities*  
**Steven Rossin (ph)** *Lynn Capital Management*  
**Peter [INAUDIBLE] (ph)** *Account Management*  
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**Fred [INAUDIBLE] (ph)** *Cobalt Capital*  
**Alec Berman (ph)** *[INAUDIBLE]*  
**[INAUDIBLE] Gartner (ph)** *[INAUDIBLE]*  
**Jeffrey Rosenberg (ph)** *William Blair*  
**Robert Burleson (ph)** *Investec*

## PRESENTATION

### Operator

Good day, everyone, and welcome to the Maxim Integrated Products first quarter 2003 earnings release conference call. Today's call is being recorded. At this time for opening remarks and introductions, I'll turn the call over to Mr. Carl Jasper, Vice President of Finance and Chief Financial Officer for Maxim Integrated Products. Mr. Jasper, please go ahead.

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### Carl Jasper *Maxim Integrated Products - CFO, Vice President*

Thank you, operator. And again I would like to welcome you all to our first quarter earnings release conference call for Maxim Integrated Products. On the call today from the company are Jack Gifford, Chairman, President and Chief Executive Officer; Amanda Lazar, Managing Director of Corporate Policy and Communications; Alan Hale, Vice President and Chief Financial Officer of Dallas Semiconductor, and again myself, Carl Jasper. There are a couple of administrative items I would like to take care of before we cover the contents of the release.

First of all, we will be making forward-looking statements on this call and in light of the Private Securities Litigation Reform Act of 1995, I would like to remind that you statements we make about the future, including our intentions or expectations or predictions of the future including but not limited, to possible statements regarding bookings and turn orders, revenues and earnings, inventory spending levels, manufacturing efficiency or capacity, projected end market consumption of our products and any other future financial results are forward-looking statements.

If we use words like anticipate, believe, project, forecast, estimate or variations of these words or similar expressions relating to the future, they are intended to identify forward-looking statements. It's important to note that the company's actual results could differ materially from those projected in the forward-looking statements. Additional information about risks and uncertainties associated with the company's business are contained in the company's SEC filings on Form 10-K for the year ended June 29th, 2002. Copies can be obtained from the company or the SEC. Secondly, in keeping with the SEC's fair disclosure requirements, we have made time available for our question and answer period. This will your opportunity to ask questions of management concerning the quarterly results and expectations for next quarter.



An operator will provide instructions at that time. Hopefully, you've all had a chance to read the press release covering our Q1 results. For those of you who have not seen it, I will now cover the financial contents of the release. Net revenues for the -- for fiscal first quarter ending September 28th, 2002, were \$285.9 million, a 19.4 percent increase over the 239.4 million reported for the same quarter a year ago and a 2.1 percent sequential increase over the \$280.1 million reported for the fourth quarter of fiscal 2002. Net income increased to \$73.2 million in the first quarter compared to 61.3 million last year. A 19.4 percent increase.

Diluted earnings per share were 22 cents for the first quarter, a 29.4 percent increase over the 17 cents reported for the same period a year ago. During the quarter, cash and short-term investments increased \$22.2 million after the company repurchased 2 million shares of its common stock for \$69 million and acquired 38.7 million of capital equipment. Accounts receivable increased by \$5.6 million in the first quarter to 135.4 million due primarily to the increase in net revenues and inventories decrease 2.9 million to \$136.3 million. Gross margin for the first quarter increased to 69.5 percent after an increasing inventory reserves \$3 million compared to 68.1 percent reported for the fourth quarter.

Research and investment expense decreased from the \$72 million reported in the fourth quarter of fiscal 2002, or 25.7 percent of net revenues, to 71.1 million, or 24.9 percent of net revenues in the first quarter of fiscal 2003. Selling, general and administrative expenses remained relatively unchanged from the fourth quarter \$2592.3 million, or 7.8 percent of net revenues. First quarter bookings were approximately \$270 million, a 13 percent decrease from the fourth quarter's level of 310 million. End market bookings for the first quarter were 11 percent below the fourth quarter's level.

Turns orders received in the quarter were \$129 million, an 8 percent decrease from the 140 million received in the prior quarter. Turns orders are customers orders that are for delivery within the same quarter and may result in revenue within the same quarter if the company has available inventory that matches those orders. Bookings decreased in all geographic locations and across most product lines. First quarter ending backlog shippable within the next 12 months was approximately \$219 million, including approximately 193 million requested for shipment in the second quarter of fiscal 2003.

The company's fourth quarter ending backlog shippable within the next 12 months was approximately \$239 million, including approximately \$210 million as requested for shipment in the first quarter of fiscal 2003. I will now turn the call over to Jack Gifford, who will provide his commentary on the quarter.

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**John Gifford Maxim Integrated Products - President, Chairman, CEO**

Thank you, Carl. In our first quarter, Maxim generated \$130 million in cash and we used \$69 million to purchase two million shares and then another \$39 million to purchase equipment. This quarter and going forward, we are improving manufacturing costs and reducing below the line spending and as a result, we will continue to show improved financial ratios.

This is coming about as a result of increased production efficiencies, yield improvements, controlling costs, reducing hiring, and we have realigned moderately our sales and applications organization to accommodate a changing customer list which was brought about by the reduction of significance of certain customers and actually more than a few that served primarily the telecommunications and the dot-com markets. We believe this realignment will put us in very, very focused situation relative to recognizing who and where our future revenues will result. Our objective, as I mentioned in our last conference call, it was achieve below the line spending levels of 25 percent or less. But this will require some help from continued revenue growth, although you will see as you can see this quarter and next, we have made significant progress. Our gross margins should continue to increase slightly as manufacturing and yield improvements kick in, in Q2 and beyond. In Q1, operating income increased by two percent over Q4 levels to 39 percent of sales. In this quarter, we announced 173 new products, up from 120 introduced in Q4, and 139 introduced in Q3. And although this is a 44 percent increase in new products comparing Q1 to Q4, it was a 14 percent increase from the Q4 levels relative to engineering man months of engineering that were introduced and we explained and discussed that concept in our last meeting. Dallas Semiconductor continues to run smoothly and contribute significantly to our company. They contributed last quarter 26 percent of our sales and 18 percent of our profit.

Dallas Semiconductor gross margins continue to increase and in Q1, uhm, they realized a 62 percent gross margin and for those of you



that have not followed this closely, that's up from 43 percent gross margin just a year ago in Q1 of fiscal '02. Very impressive improvement. During the first quarter, we shipped about 70 percent of the orders that we booked for turns. I mentioned that in this comment because almost every meeting I get asked that during the discussion. We believe that Q1 and Q2 shipments are approximately equal to the customers' consumption levels for our products during both Q4 and Q1, both Maxim and our customers continued to reduce inventories. In Q1, you'll notice that our weighted share count decreased by 11 million shares.

That was due primarily to 9 million shares that were taken out of the count due to the treasury method calculation for option shares and we repurchased 2 million shares. It appears in hindsight that our wireless customers significantly overbooked above their consumption levels in Q4 and adjusted to consumption levels or below in Q1 bookings on Maxim. Also, during Q1, our distributors resales of our products increased by 11 percent over their fourth quarter resale levels. At this point, I will stop the prepared comments and we'll open the conference call to questions from our audience.

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#### Operator

Thank you, sir. Today's question-and-answer session will be conducted electronically. If you would like to signal to ask a question, please press Star 1 on your touch-tone telephone keypad. Once again, that is Star 1 to ask a question. If you are using a speaker phone make sure that your mute button is deactivated so that your signal will reach our equipment, and we'll pause for just a moment so everyone has a chance to signal. Our first question comes from Michael Mandeo with Credit Suisse.

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#### QUESTIONS AND ANSWERS

##### Michael Mandeo *Credit Suisse*

Great, thanks, guys. Real quick, could you give us your best shot at the revenue outlook for next quarter?

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##### John Gifford *Maxim Integrated Products - President, Chairman, CEO*

Well, our best shot is about as visible as -- it's probably not going to be very accurate because it's very hard to predict anything right now. Right now, we're expecting that we'll book above last quarter's levels. We expect our revenue will be -- well, I ought to correct myself. I misunderstood your question. Actually, you asked about bookings levels or revenue levels?

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##### Michael Mandeo *Credit Suisse*

Well, both if you want. But I asked about revenues.

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##### John Gifford *Maxim Integrated Products - President, Chairman, CEO*

Okay. I misheard you. Our bookings are -- are not as predictable as our revenue. As I said, we expect to book above last quarter's level but we couldn't tell you if that's going to happen at this point. As for our revenue, we also expect that our revenue will be about equal to last quarter's revenue and we expect that our earnings will be slightly above last quarter's earnings per share.

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##### Michael Mandeo *Credit Suisse*

And the turns that you didn't ship in the quarter, those part of your next quarterback log that you talked about?

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##### John Gifford *Maxim Integrated Products - President, Chairman, CEO*

Mostly, yes, aha.

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##### Michael Mandeo *Credit Suisse*

Okay. And you talked about refocusing the business a little bit based on the customers. What are they urging to you refocus on? Is that pretty much everything besides telecom?



**John Gifford Maxim Integrated Products - President, Chairman, CEO**

Well, not refocusing our product direction. It's -- well, it's refocusing where we apply our applications and salespeople in the field. And it's exactly, Michael, it's what you said. It's more a reducing the focus on the telecom and the dot-com type customers.

**Michael Mando Credit Suisse**

Great. Real quick last question on the Cap Ex side. What type of equipment are you buying these days for 40 million? Is it just cents on the dollar equipment and some of the new process technologies? And what do we expect on Cap Ex and depreciation going forward?

**John Gifford Maxim Integrated Products - President, Chairman, CEO**

Well, the -- to answer the second part first, we expect Cap Ex to be below last year's Cap Ex, which is about 90 million. We think it will be between 70 and 80 million this year. And, yes, you answered your own question pretty accurately. We're spending for, you know, where we can get bargains on state-of-the-art equipment for our wafer fab we're buying and that equipment, and we're buying some test equipment.

**Michael Mando Credit Suisse**

Thanks a lot, guys.

**Operator**

Next we'll take a question from Ross Seymour with Deutsche Banc.

**Ross Seymour Deutsche Banc**

Thank you, just a question on the end markets. You gave a little bit of color on the handset business overbooking in the prior quarter. Were there any other end markets that either stood out a little bit more positively or negatively?

**John Gifford Maxim Integrated Products - President, Chairman, CEO**

No, not really. And that was the single glaring highlight or low light it was definitely noticeable.

**Ross Seymour Deutsche Banc**

And then so I would imagine also that there are no changes in lead times whatsoever there?

**John Gifford Maxim Integrated Products - President, Chairman, CEO**

That's correct. Lead times are almost -- they were identical.

**Ross Seymour Deutsche Banc**

Okay. And then on the cost reduction front in looking at the operating expenses, you mentioned you want to drop that down to 25 percent if possible. Should we expect a similar sort of slow decline on the R&D line that we saw in this quarter and relatively flat elsewhere?

**John Gifford Maxim Integrated Products - President, Chairman, CEO**

Well, you know, I don't think that's probably going to be, uhm, the primary -- I think we are going to get reduced below the line spending as a percent because we are going to get sales growth. We will get spending reductions in Q2 which will come about in a number of areas, R&D being one of the -- not one of the major ones. In fact, not at all basically. We'll be getting it primarily in other reduction areas in the below the line category.



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We actually intend to hire over 120 people in our R&D organization during the next 12 month. We have gotten reduction -- we have worked very hard on spending reductions below the line and, of course, things like working plates to make masks for new products that we have had -- we have been successful in achieving lower costs there, uhm, materially, and things like that so it's an overall expense control thing and then we have had been able to reduce spending on people in some of the non-R&D areas.

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**Ross Seymour Deutsche Banc**

Great. One last question. Has the activity that you have seen thus far in this quarter and in October changed at all from the relatively light bookings behavior we saw in the prior quarter?

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**John Gifford Maxim Integrated Products - President, Chairman, CEO**

It has with regard to turns. I think bookings are up slightly quarter to date from last quarter. I think our turns are up about 11 percent quarter to date from last quarter. So that's all I can tell you right now. That's after about four weeks.

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**Ross Seymour Deutsche Banc**

Okay, great. Thank you.

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**Operator**

Next we'll take a question from Torey Vonberg with US Bancorp Piper Jaffray.

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**Torey Vonberg US Bankcorp Piper Jaffray**

Yes, good afternoon. Couple of questions. Jack, first of all, do you have the cancellation number for the quarter?

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**John Gifford Maxim Integrated Products - President, Chairman, CEO**

Yeah, Torey, I do. It's about a million less than last quarter's. It's about \$6.9 million.

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**Torey Vonberg US Bankcorp Piper Jaffray**

Very good. And based on the capacity you have today, what revenue level could we be looking at?

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**John Gifford Maxim Integrated Products - President, Chairman, CEO**

We can ship \$500 million a quarter. -- from where we are right now.

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**Torey Vonberg US Bankcorp Piper Jaffray**

Very good. And if I could also perhaps ask a question for Alan, Alan, now, uhm, well a year after the acquisition, how have you seen the sign cycle change? How have you seen your sales organization move? Help us understand a little bit how you feel now well into a year after the merger.

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**Alan Hale Vice President, CFO**

Jack, would you take that, please.

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**John Gifford Maxim Integrated Products - President, Chairman, CEO**

Well, you know, it was asked to you, Alan.

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**Alan Hale Vice President, CFO**

You go ahead and answer it.

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**John Gifford Maxim Integrated Products - President, Chairman, CEO**

Sure. Well, let's keep in mind Dallas adopted the Maxim sales force, and did away with the costly network of reps and heavy reliance on distribution. With that said, the precision which Dallas -- new product ideas come back from the field has improved. And over the long haul, the hit rate for the Dallas product introductions ought to be a lot better. So Torey, I couldn't say much beyond that that would give you an insight but obviously from my comments it has been an improvement.

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**Torey Vonberg US Bankcorp Piper Jaffray**

That's very helpful. Thank you.

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**Operator**

Next we'll go to Tristan with Prudential Securities.

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**Tristan [INAUDIBLE] Prudential Securities**

Good afternoon. I was wondering if the rebound in gross margin sequentially, which was expected, had more to do with a change in product mix or manufacturing cost reduction on the manufacturing side.

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**John Gifford Maxim Integrated Products - President, Chairman, CEO**

You know, there was definitely an improvement in the mix that helped. And there was some cost reductions that did help in Q1, but primarily -- I would think that it primarily -- Carl if you can help me -- I'm thinking half came from each. But I'm guessing. I know we had a flow-through that helped.

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**Carl Jasper Maxim Integrated Products - CFO, Vice President**

Mostly manufacturing.

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**John Gifford Maxim Integrated Products - President, Chairman, CEO**

Was it mostly? Okay. But I know that it was a mix -- [INAUDIBLE].

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**Carl Jasper Maxim Integrated Products - CFO, Vice President**

The mix changed.

We got something less of the -- we had -- I think the wildest thing we had maybe shipped less wireless and that was the lower margin stuff.

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**John Gifford Maxim Integrated Products - President, Chairman, CEO**

That's correct.

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**Carl Jasper Maxim Integrated Products - CFO, Vice President**

But going forward, I think the margin improvements will come from the manufacturing efficiencies. More so than a mix change.

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**Tristan [INAUDIBLE] Prudential Securities**

In wireless, could you just give us a bit more specific in terms of what products was, you know, hurting margins or at least was lower than average?

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**John Gifford Maxim Integrated Products - President, Chairman, CEO**

Wireless in notebook products are lower margins than the other products and so anytime you know they -- you know, it's not a big



percentage change. But, I mean, they are not 40 percent margin products by any stretch of the imagination. But I'm just, you know, trying to be helpful to you and tell you that, yeah, there was a little bit of a mix change away -- we probably shipped a lower percentage of wireless products in Q1 than we did in Q4.

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**Tristan [INAUDIBLE] Prudential Securities**

Okay.

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**John Gifford Maxim Integrated Products - President, Chairman, CEO**

But Carl --

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**Tristan [INAUDIBLE] Prudential Securities**

The next question --

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**John Gifford Maxim Integrated Products - President, Chairman, CEO**

As Carl said, he corrected me, that most of the change actually came from production efficiency.

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**Tristan [INAUDIBLE] Prudential Securities**

Okay. And last question which could be a bit more specific than what would you like to answer, but I'll give it a try anyway. Since you mentioned notebook, can you say whether notebook [INAUDIBLE] were up in line -- revenues were up in line with total revenues in the quarter or was it kind of lagging in terms of press a-- percent annual growth?

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**John Gifford Maxim Integrated Products - President, Chairman, CEO**

I think all of you or probably most of are you aware that the notebook market did not have a good, you know, a boom Christmas build. And I think we saw that as well as everybody. And so I think their bookings were below what we expected in Q1.

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**Tristan [INAUDIBLE] Prudential Securities**

Great. Thank you.

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**Operator**

Our next question comes from Lewis Garrity with Morgan Stanley.

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**Lewis Garrity Morgan Stanley**

Good afternoon. Jack, maybe you can just talk about some of the product areas or regions that are giving you the relatively best visibility.

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**John Gifford Maxim Integrated Products - President, Chairman, CEO**

None of them.

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**Lewis Garrity Morgan Stanley**

I emphasize "relative." I mean, how about if they're all relatively the same?

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**John Gifford Maxim Integrated Products - President, Chairman, CEO**

All right. No visibility. I mean, I'm not trying to be cute here. You know, it's just, uhm, there isn't visibility.



**Lewis Garrity Morgan Stanley**

With flatish net billings next quarter, that suggests your turns business would be low 30 percent of revenue. That doesn't suggest an increase in your turns business. Is that just --

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**John Gifford Maxim Integrated Products - President, Chairman, CEO**

No. I think we're -- our belief is that our turns will go up both as a percent after revenue and percentage of bookings and as a total absolute number. That's what we're seeing right now.

So, you know, we're -- and there's no inventory out there. So that -- those two correlate. Inventories continued to go down and turns are up. So people are buying, you know, still -- I have no real interest in placing orders out in front of themselves, you know, a couple of quarters ago the wireless people, you know, overbought and they readjusted that last quarter and I think we'll see bookings up this quarter from last but we believe right now -- our people tell us that the consumption rate for our products, you know, are, you know, in the 1 -- 290 million level and that's about where we're booking right now.

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**Lewis Garrity Morgan Stanley**

What do you think you'll see from wireless in the December quarter for bookings?

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**John Gifford Maxim Integrated Products - President, Chairman, CEO**

I don't know. I don't know yet.

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**Lewis Garrity Morgan Stanley**

Okay. And, uhm, can you just talk about what the schedule is, you're planning for your three fabs and maybe your assembly plant also during the holiday periods and, you know what the impact would be on costs and expenses in the quarter?

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**John Gifford Maxim Integrated Products - President, Chairman, CEO**

No. We're having -- no special plans. We're running normally.

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**Lewis Garrity Morgan Stanley**

Okay. And do you have the bookings breakdown by region?

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**John Gifford Maxim Integrated Products - President, Chairman, CEO**

I do. I can almost -- I think I pretty much memorized -- roughly 36 or 37 percent in the US and 36 or 37 percent in the PAC rim. And about 11 percent in Japan. And the rest of it's in Europe.

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**Lewis Garrity Morgan Stanley**

Thank you.

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**Operator**

Our next question comes from Krishna Shenkar with JMP Securities.

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**Lewis Garrity Morgan Stanley**

Can you give us some sense for your revenues by end market application, portable computing, peripherals, communications and the industrial marks --

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**John Gifford Maxim Integrated Products - President, Chairman, CEO**

We really don't communicate that.



**Lewis Garrity Morgan Stanley**

Maybe you can pick qualitatively in terms of what segments showed trends relative to the last quarter?

**John Gifford Maxim Integrated Products - President, Chairman, CEO**

I think I -- I -- the only thing of any relevance I commented on which was the wireless situation.

**Operator**

We'll take a question from David Wu with Wedbush Morgan.

**Sydney Hope Wedbush Morgan**

This is Sydney Hope for David. The question is regarding the cost-cutting measures that you guys have, I think I read in the annual report that the [INAUDIBLE] have a reduction in their salary. Is there any other -- are you taking head count down as well or is all the employees salary affected as well?

**John Gifford Maxim Integrated Products - President, Chairman, CEO**

Well, none of that the -- officers took no -- had no bonus last year, and we -- none of us have will have a salary this year, so... that -- but that hasn't impacted, you know, really any of the numbers we're talking about for Q1 or Q2. You know, we have attrition which, you know, we hired I think last year, and Carl if you have a better number, correct it, but I think we hired between 600 and 700 people last year and our plan right now is to hire 120. So those kinds of things, uhm, you know, our bonuses, uhm, for our people will be, you know, probably down, you know, maybe 50 percent from last year's level based on how, you know, those kinds of things but those are the kinds of things we're planning.

Of course, we're looking at, you know, we're not adding overhead. Wherever we have people that are, you know, that -- where like we said we realigned our field applications and sales organization and, you know, there were dislocations there where, you know, if people couldn't move or transfer, you know, there were people that were resigned. But those are the kinds of things we have done and are doing.

**Sydney Hope Wedbush Morgan**

A follow-up to that is that last quarter you mentioned that the -- to reach the 25 percent operating expense level, you need about \$500 million of revenue. Is that still the case right now?

**John Gifford Maxim Integrated Products - President, Chairman, CEO**

Say that again?

**Sydney Hope Wedbush Morgan**

Last quarter, you said the -- to reach 25 percent below the line expenses, you need about \$500 million in revenue.

**John Gifford Maxim Integrated Products - President, Chairman, CEO**

No, I didn't say that.

I'm sure I didn't say that. But that's not -- that's not correct. We need to get somewhere in the neighborhood of, uhm, I don't know, three hundred and -- 330, 320 million a quarter.

**Sydney Hope Wedbush Morgan**

All right. Thank you.



**Operator**

Our next question comes from Joe Osha with Merrill Lynch.

**Joseph Osha *Merrill Lynch***

Yeah, Jack. As you look at the current design win activity, and particularly the competitive environment, are you finding that the pricing environment has become tougher than it's historically been? And are you finding that there's business perhaps more business that you walk away from on price than you used to?

**John Gifford *Maxim Integrated Products - President, Chairman, CEO***

We don't walk away from anything.

**Joseph Osha *Merrill Lynch***

Uhm, are you finding that not walking away involves maybe giving more on price --

**John Gifford *Maxim Integrated Products - President, Chairman, CEO***

I don't know. Our margins -- our gross margins went up.

**Joseph Osha *Merrill Lynch***

Yeah, but you have been obviously you are making the organization more efficient which is great.

**John Gifford *Maxim Integrated Products - President, Chairman, CEO***

I said -- well, manufacturing efficiencies, lowering costs, improving yields. That's how you become a price leader. We -- you know, people -- we don't want people competing with us. We try to discourage them whenever we see somebody that's doing that, we are, uhm, we don't take any prisoners on price. So... we don't start those wars. But if somebody wants to try to do that, it's -- we're not the right guys to mess with.

**Joseph Osha *Merrill Lynch***

I guess I'm just stipulating that you guys have done a good job. I'm just trying to get a sense as to how vicious that war is right now.

**John Gifford *Maxim Integrated Products - President, Chairman, CEO***

Not very vicious. Your margins can't go up if you have a vicious price, right? It's not an issue.

**Joseph Osha *Merrill Lynch***

Okay. Thanks.

**John Gifford *Maxim Integrated Products - President, Chairman, CEO***

Yup.

**Operator**

We have a question from Woody Calleri with Midwest Research.

**Woody Calleri *Midwest Research***

Yeah, just to start with Jack, what constitutes and and did you say they get no bonuses and no salary this year?



**John Gifford Maxim Integrated Products - President, Chairman, CEO**

An officer is -- we have 11 or 12 Vice Presidents and we have a CEO.

**Woody Calleri Midwest Research**

Okay.

**John Gifford Maxim Integrated Products - President, Chairman, CEO**

And last year, none of us got -- none of us got a bonus.

**Woody Calleri Midwest Research**

Okay.

**John Gifford Maxim Integrated Products - President, Chairman, CEO**

Zero. And this year, we've all -- I -- well, let's see. We have air, uhm,... I think the -- -- I took -- I'm getting no salary this year starting in June. And our Vice Presidents have volunteered to take a 30 percent salary cut.

**Woody Calleri Midwest Research**

Okay. On the --

**John Gifford Maxim Integrated Products - President, Chairman, CEO**

We've also, uhm, just -- we might as well add to this, uhm, a group of us have also put back or cancelled about a million and a half shares of options which we put back into the pool so that we could -- so other employees who could get those options so -- that were reissued to other employees.

**Woody Calleri Midwest Research**

Okay. On the math for the next quarter, looks like you have 193 million in bookings. You assume about 8 million in cancellations, that's about 100 million in turns. Which is below what you guys did in turns this quarter. Why only the flat guidance or is my math just really bad?

**John Gifford Maxim Integrated Products - President, Chairman, CEO**

Well, you know, we don't like to disappoint people. And we like to be able to operate without -- and you know, on a daily basis and be able to sleep at night. I don't think the company -- that's the way the company was always run. We want to make sure that we are not struggling to make our numbers.

**Woody Calleri Midwest Research**

Okay. So that leads me to about, I don't know, less than 30 percent turns. Do you know where you are right now in the quarter four weeks in?

**John Gifford Maxim Integrated Products - President, Chairman, CEO**

We're ahead of our plan.

**Woody Calleri** *Midwest Research*

Okay. Fair enough there. Can assume capacity utilization if you can do 500 million a quarter is running about 60 percent?

**John Gifford** *Maxim Integrated Products - President, Chairman, CEO*

Well, no. At 500 million a quarter, we would be running at about 70 or 80 percent of capacity.

**Woody Calleri** *Midwest Research*

No, I meant, I thought could you do 50 -- 500 million a quarter and you are doing about 300 million a quarter now.

**John Gifford** *Maxim Integrated Products - President, Chairman, CEO*

That's correct.

**Woody Calleri** *Midwest Research*

That's about 60 percent utilization right now?

**John Gifford** *Maxim Integrated Products - President, Chairman, CEO*

We are about 50 percent utilization at the current levels.

**Woody Calleri** *Midwest Research*

Okay. Fair enough. And a question -- if I remember correctly --

**John Gifford** *Maxim Integrated Products - President, Chairman, CEO*

Let me -- I think I understand you. You never want to run at 100 percent capacity. Okay? So --

**Woody Calleri** *Midwest Research*

Right.

**John Gifford** *Maxim Integrated Products - President, Chairman, CEO*

You know, you approach 80 percent. At that point you really don't have 100 percent capacity to use. You understand that?

**Woody Calleri** *Midwest Research*

Mm-hm.

**John Gifford** *Maxim Integrated Products - President, Chairman, CEO*

Okay.

**Woody Calleri** *Midwest Research*

No, I understood.

I was just trying to get a sense uhm, where you guys as to stood on that I should have asked it a little better.

**John Gifford** *Maxim Integrated Products - President, Chairman, CEO*

A lot more excess capacity than I would like to have and if we can get up to 70 or 80 percent we'll have a material improvement in gross margins.

**Woody Calleri** *Midwest Research*

Okay. Can you give us a little bit of your view on your progress in the microcontroller area as you move into that market and Dallas continues to be in that market?

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**John Gifford** *Maxim Integrated Products - President, Chairman, CEO*

I think it's too long of an answer to be -- to give justice to the question to do on this conference call.

I've talked to you about it if you would like to call in afterwards but we're quite pleased and as now excited about that opportunity and we have done well. I mean, we've booked a couple of -- we've booked not a couple. We've booked a \$700 million order, which -- I'm sorry. \$700,000 order. [ Laughter ] Which is indicative of the fact that we do have something to contribute in that area. So... I -- I think -- we'll talk about it later if you would like.

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**Woody Calleri** *Midwest Research*

Yeah, I'll follow up with that one later. One last one and then I'll let someone else go. If I remember before you bought Dallas they had a relationship with Lexmark. Does that mean you guys should see a positive from the Lexmark/Dell relationship starting sometime next year?

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**John Gifford** *Maxim Integrated Products - President, Chairman, CEO*

I'm ignorant of that -- of the Lexmark/Dell relationship but the answer, you are correct we do have a good relationship with Lexmark and I would imagine that if it causes Lexmark to sell more it would help us.

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**Woody Calleri** *Midwest Research*

Okay, thanks very much.

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**Operator**

Next we'll go to Joseph Tow with Specific Crest Securities.

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**Joseph Tow** *Specific Crest Securities*

Just kind of curious with regards to the reduction of 11 million shares for this quarter, what's your outlook for next quarter? Can we expect, you know, a substantial decrease in share count?

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**John Gifford** *Maxim Integrated Products - President, Chairman, CEO*

I hope not. You know, 9 million of that came from the stock price going down. You know, I don't know how familiar you are with the way the Treasury method of counting shares is, but you don't count a share if it's below water. And an option share. So, uhm, you know, it would -- they would go down -- it wouldn't go down materially unless -- the stock price continued to go down.

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**Joseph Tow** *Specific Crest Securities*

Okay. And, uhm, with regards to some comments made last quarter on the original guidance was two to 5% gross, so basically low single digits and some of that was attributed to the consumer sector. Can you comment on what you're seeing this quarter on the consumer sector and what you saw last quarter since we're into the holiday season right now?

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**John Gifford** *Maxim Integrated Products - President, Chairman, CEO*

Well, I think most of what was going to go on for the holiday season happened mostly last quarter. So I think you could -- you obviously have other people you can ask that same question too. But it's my -- and I don't pay a lot of attention to studying the consumer market.



But I don't think that the notebook sales are going to be -- you know, what, you know, if -- booming for the -- for the holiday season. Other than that we're not really having -- we don't have any visibility for the consumer market per se. We could look at the notebook as being a consumer market to a large extent. To some extent. Handsets, phones, I mean, those are not -- those are consumer product but they're not holiday-oriented. So -- but I would -- I mean, I'm anxious as you are to see how retail sales go during the holidays. I just don't have much visibility right now.

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**Joseph Tow *Specific Crest Securities***

Okay. And, uhm, can you -- do you have an idea of how much, uhm, portable equipment was in terms of percentage of revenue last quarter you gave a number of about a third thank you know, 30 --

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**John Gifford *Maxim Integrated Products - President, Chairman, CEO***

Yeah, you know, I really don't comment on those things. I do know, of course, but I'd rather not comment.

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**Joseph Tow *Specific Crest Securities***

Just one last question. With regards to your comments on the wireless customers, how much decline did you see from Q4 to Q1? -- in bookings?

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**John Gifford *Maxim Integrated Products - President, Chairman, CEO***

Well, yeah. Q4 was -- let me put it -- let me see if I can give you this in context. Q4 was above Q3 by about 60 percent. Yeah. Q4 was about 60 percent up. From Q3. And then Q4 was down about 40 percent -- Q1 was down about 40 percent from Q1.

So if you drew a line through the booking trends over some number of quarters you'll see that the wireless was growing but they just -- they went out and bought a place out of panic probably. I mean, but probably a poor choice of words but their anticipation of growth and demand for their product several wireless companies you know, placed orders and, you know, in Q3 that they're burning off inventory in Q4. And Q1 and Q4. So it wasn't like that market was down. It was -- they just really overbooked in Q4. So the trend line -- if you drew -- if you ignored Q4, the trend line between Q3 and Q1 would be up.

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**Joseph Tow *Specific Crest Securities***

Okay. Thank you very much.

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**John Gifford *Maxim Integrated Products - President, Chairman, CEO***

Mm-hm.

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**Operator**

Our next question comes from Steven Rossin with Lynn Capital Management.

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**Steven Rossin *Lynn Capital Management***

Jack, you mentioned that you are going to be hiring 120 people in R&D. Can you just talk about where you are going to focus those people that you are going to hire over the next year and what types of people you are going to be hiring? And then secondly, you talked a lot more on the previous call about how you were America productivity and one more quarter into it, could you just give us a little bit more color beyond what you had in your prepared remarks?

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**John Gifford *Maxim Integrated Products - President, Chairman, CEO***

You know, those are, first of all, the answer is no, I really can't talk about the first question. It's -- that's obviously proprietary. That's



where we're focusing and what people we are looking for. And I just don't want to talk about that. And the other question, I -- I -- hate to be not helpful here but the other question is just, uhm, you know, too complicated to get into any meaningful discussion on, on this call so I would talk to you about the second question if you want to call back in.

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**Steven Rossin *Lynn Capital Management***

Okay. I'll follow up on that later. Thank you.

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**John Gifford *Maxim Integrated Products - President, Chairman, CEO***

I think you are coming over to see us anyway, aren't you?

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**Steven Rossin *Lynn Capital Management***

We hope so. We don't have a date yet.

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**John Gifford *Maxim Integrated Products - President, Chairman, CEO***

Okay.

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**Operator**

Our next question comes from Peter with Account Management.

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**Tristan [INAUDIBLE] *Prudential Securities***

Hi. Jack, there was a surprise in this quarter. Very seldom have a surprise. Uhm --

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**John Gifford *Maxim Integrated Products - President, Chairman, CEO***

What was that Peter? Nothing surprises you.

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**Tristan [INAUDIBLE] *Prudential Securities***

Well... uhm, I'm surprised. I'm going to have to reconsider not retiring now that I'm going to get a dividend! [ Laughter ]

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**John Gifford *Maxim Integrated Products - President, Chairman, CEO***

Oh. Okay.

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**Tristan [INAUDIBLE] *Prudential Securities***

I can afford to retire!

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**John Gifford *Maxim Integrated Products - President, Chairman, CEO***

How many shares?

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**Tristan [INAUDIBLE] *Prudential Securities***

Well, you know, we still have a few million shares. Yeah. Listen, what about dividends? Last call, you had a brief discussion with somebody who thought that dividend was a good way for you to deploy cash and you thought it was a given that buying in stock makes much more sense than paying it out to us. Have you reconsidered that or did you just get overwhelmed by popular demand or what?

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**John Gifford *Maxim Integrated Products - President, Chairman, CEO***

I always listen, you know, and, you know, I don't always -- and I listen to that gentleman and I thought about it some more and, uhm, I thought about, you know, well, what's wrong with a dividend?

And what's right with a dividend? And we came to the conclusion that we're a very stable company. Our earnings are very predictable.



We have certainly the wherewithal to pay dividends. And I think a dividend reflects largely that a company is stable and has predictable growth and so in that light, we decided that it would -- our shareholders should receive some small dividend. And we think it's overall positive. There are also some investors who can't invest in a stock if the stock --

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**Tristan [INAUDIBLE] Prudential Securities**

That's true.

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**John Gifford Maxim Integrated Products - President, Chairman, CEO**

-- doesn't pay a dividend. So in taking it you know, everything under consideration, it seemed like that gentleman's idea was not as off the wall as I may have made it sound in that call. And we -- and it cause immediate to think about it.

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**Tristan [INAUDIBLE] Prudential Securities**

Do you want to comment on something which maybe it's out of date but I was brought up to think that companies, you know, didn't consider dividends during their rapid growth stage and then when they settled downed and in fact the word "stable" "that you used a couple of times I hope doesn't get the wrong impression, initiating dividends began to be, you know, associated with stability, meaningless growth. Now, if you want to clear that up, I'd be very pleased.

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**John Gifford Maxim Integrated Products - President, Chairman, CEO**

I can't clear thank you.

It's your observation. It's not mine. I can't clear it up. It didn't occur to me that it had anything to do with growth. If you don't grow and don't have a good future, I don't think you should be looking at paying a dividend. But I would look -- I look at it just the opposite.

To me, if you have, you know, if you are not going to need all of your money and certainly our dividend is in no way a large -- we earned -- I mean, our dividend, I think, is worth about \$30 million a quarter. I mean, we earned \$130 million in cash this quarter. I mean, it's a small number. You know, I think our dividend -- I intended our dividend to reflect just how much money in cash we do generate.

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**Tristan [INAUDIBLE] Prudential Securities**

Wait a second. I got a different figure. You have 300 -- if you use a round number, 350 million shares and 2 cents?

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**John Gifford Maxim Integrated Products - President, Chairman, CEO**

12 million a year I guess is not --

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**Tristan [INAUDIBLE] Prudential Securities**

Right.

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**John Gifford Maxim Integrated Products - President, Chairman, CEO**

25 million a year, right? What did I say, 30?

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**Tristan [INAUDIBLE] Prudential Securities**

You said per quarter.

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**John Gifford Maxim Integrated Products - President, Chairman, CEO**

I meant a year. No wonder. I meant a year. We'll make, you know, we'll make \$400 million in cash and earnings and 33 million of that is 10% of that.

**Tristan [INAUDIBLE] Prudential Securities**

Well, I'm glad you straightened that out because our people who -- there are people who kind of -- you know, the dividend -- people who require a dividend, they might think, oh, well now Maxim belongs to a different category. We have these stupid categories of....

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**John Gifford Maxim Integrated Products - President, Chairman, CEO**

Well, most people are more -- I mean, most people are more -- I hope and I believe that people really think a lot more than that. I mean, I certainly didn't even occur to me that a dividend would be a negative thing.

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**Tristan [INAUDIBLE] Prudential Securities**

You know --

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**John Gifford Maxim Integrated Products - President, Chairman, CEO**

My only concern at paying a dividend is do we need, you know, can we use that cash to either buy back more stock or to buy equipment or for an acquisition. And if I felt that that lack of -- that that cash would detract from opportunities in any of those areas, then I would probably wouldn't do it but, you know, we've scaled it to where it's a non-issue, right?

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**Tristan [INAUDIBLE] Prudential Securities**

Great. That settles it perfectly. Thank you very much.

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**John Gifford Maxim Integrated Products - President, Chairman, CEO**

Mm-hm.

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**Operator**

We'll take a question from Clark Westmont with Salomon Smith Barney.

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**Clark Westmont Salomon Smith Barney**

Hi, guys. I think you mentioned that the distributor resales were up 11 percent sequentially in the quarter. Did I get that right? And can you give us any color on that? Whether by geography or any other driver for that?

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**John Gifford Maxim Integrated Products - President, Chairman, CEO**

You know, that is the right number. And I can't give you any more information on it than that I just don't have any more insight. You mean I'm assuming you -- you are asking, you know, is it in one sector, one equipment area, or something like that? I just don't know. It's across the board, I would imagine.

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**Clark Westmont Salomon Smith Barney**

Does it strike you as unusual given the then market environment or do you think that's the nature of being so turns-dependent right now?

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**John Gifford Maxim Integrated Products - President, Chairman, CEO**

I looked at it as a positive sign, but, of course, we're all looking for positive signs. I mean, I was -- I was comforted by the fact that the resales were up and they weren't down which means that there's not a negative trend going on there for our product lines. That's all I can tell you I just draw the same conclusions that you might or anybody else might. I just don't know a lot more. If the distributor resales are up 11 percent, not too much bad is probably going on.



**Clark Westmont Salomon Smith Barney**

Would you have a guess about what sales would do sequentially this quarter?

**John Gifford Maxim Integrated Products - President, Chairman, CEO**

It would be a 100 percent guess. We'll both guess and bet a dollar on it.

**Clark Westmont Salomon Smith Barney**

Okay. [ Laughter ]

**John Gifford Maxim Integrated Products - President, Chairman, CEO**

I just don't know.

**Clark Westmont Salomon Smith Barney**

Thanks.

**Operator**

We'll go to Fred with Cobalt Capital.

**Tristan [INAUDIBLE] Prudential Securities**

I'm just curious about the -- in terms of the comparing the bookings quarter to date this quarter versus the September quarter, just the linearity of the quarters, is there any difference in your opinion?

**John Gifford Maxim Integrated Products - President, Chairman, CEO**

Could you speak up a little bit, please?

**Tristan [INAUDIBLE] Prudential Securities**

Yeah. I'm just -- I'm curious whether the bookings are normally -- normally have the same linearity in the December quarter as they do in the September quarter.

**John Gifford Maxim Integrated Products - President, Chairman, CEO**

Uhm, you mean after four weeks? Is that what you're talking about?

**Tristan [INAUDIBLE] Prudential Securities**

Right, right, right.

**John Gifford Maxim Integrated Products - President, Chairman, CEO**

Well, I tell you, these four weeks are a little better -- marginally better, you know, than they were the first four weeks of last quarter, but, you know, we were looking into the holidays and a thought we were looking in a growth second two months of last quarter and that really didn't happen. They didn't -- they didn't pick up as I thought they might. Will they this quarter?

I don't know. I mean, I hope they do. I think they will. I mean, it's our feeling that we're going to book more this quarter than last quarter. But... we don't have any basis for it other than that we think last quarter was depressed by overbooking in Q3 and we do think there is a growth trend. Going on here. We don't think it's -- we think it's not a -- a -- a -- an aggressive growth trend per quarter but we do believe that there is growth. I mean, if he would can get these cycles or these per it your [INAUDIBLE] out of the way, we think there's growth. I



don't think we're looking right now, we don't believe we're in a 30 percent per year growth situation. But I think we'll see bookings up slightly maybe up, I just don't know, maybe up 10 million? Our business units think we're going to book the demand is about 290 million. In this quarter. That's what they think [INAUDIBLE] is. But so we'll have to wait and see.

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**Tristan [INAUDIBLE] Prudential Securities**

Okay. All right. Thanks.

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**Operator**

Our next question comes from Alec Berman.

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**Alec Berman [INAUDIBLE]**

Hey, how are you doing? It's the dividend guy from last conference call. [ Laughter ]

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**John Gifford Maxim Integrated Products - President, Chairman, CEO**

Oh, okay.

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**Alec Berman [INAUDIBLE]**

Thanks for being responsive.

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**John Gifford Maxim Integrated Products - President, Chairman, CEO**

I wasn't being responsive. We just listened. We could have just just as easily listened and thought about it and we don't really agree with you.

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**Alec Berman [INAUDIBLE]**

Thanks for bringing it up. Now I have another order for you. I'm not sure if you will listen to me on this one. Talk about another area somewhat related. Share buy-back, I mean, you have been very aggressive this in that category, you know, last quarter particularly but also -- sorry, two quarters ago particularly and then last quarter again and obviously no one can gain the price of these things perfectly but other than the bubble period where, your valuation and valuation of all stocks went crazy, you're now objectively trading at such a compelling historical valuation where I would sort of say, gee, you know, let's go run out and buy back these stocks because they're so cheap.

I mean, relatively speaking to where you were, you're cheap but your multiple is objectively like, wow, really, really low if you go back 10, 15 years over the the multiple you guys used to get. So what's the logic of the aggressive share buy-back? Sort of decision of late. Seems like you could just be better off again paying dividends or doing something else and [INAUDIBLE].

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**John Gifford Maxim Integrated Products - President, Chairman, CEO**

Well, you not you're counting a hell of a lot on hindsight, okay? I mean, anybody can just like you know guess building Dusty Baker and the Giants but that's great on Monday but you know, you don't know -- what you have to do is you have to look at, you know, how much do you believe in your company and where is it going to get to? And if you believe you are going to do \$2 billion and make \$2 a share or \$2.50 a share and you believe in truly there will be a set of companies that are valued at 30-1, PE, 40-1 or whatever, and if you are -- and if you do have stock option program where there is, you know, there is dilution, as a result of it, there is a clear strategy and a logic that



leads you to buy shares back every quarter. -- because you feel it -- you know, I feel that it is in our shareholders' best interests to do that and that's the way we think about it. Sometime most -- and I think store cloudy we have been absolutely correct in doing that. And I think going forward we are going to be correct in that, too [ historically ]

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**Alec Berman [INAUDIBLE]**

That's fair. One more quick follow-up on that Mike asked you Cap Ex guidance and you gave it but depreciation guidance, what's your guidance for depreciation?

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**John Gifford Maxim Integrated Products - President, Chairman, CEO**

It's going -- it's the same as what it is except it's going to go up by whatever 70 or 80 million is divided by did 10 years. You know? 10 or 15 years. So it will probably go up about, you know, 8 million over what it was the rate it was last year.

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**Alec Berman [INAUDIBLE]**

So 8 million per year, you're saying?

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**John Gifford Maxim Integrated Products - President, Chairman, CEO**

Yeah.

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**Alec Berman [INAUDIBLE]**

Okay. Got it.

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**John Gifford Maxim Integrated Products - President, Chairman, CEO**

You really want an exact number, call Carl Jasper and he will give the number. We know exactly what it is. There is not going to be any dramatic increases.

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**Alec Berman [INAUDIBLE]**

Okay. Appreciate it. Thanks.

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**John Gifford Maxim Integrated Products - President, Chairman, CEO**

Mm-hm.

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**Operator**

We have a question from [INAUDIBLE] Gartner with [INAUDIBLE].

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**[INAUDIBLE] Gartner [INAUDIBLE]**

Good afternoon.

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**John Gifford Maxim Integrated Products - President, Chairman, CEO**

Hi.

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**[INAUDIBLE] Gartner [INAUDIBLE]**

I'm curious as to your view on the output -- I mean on the outlook, excuse me, last year we had a lot of people who were very conservative in bringing down their inventories in Q4 and that seems to be the case again this year. And because of that, we ended up having a lot of inventory replenishment in the first quarter of this year. And I'm curious as to whether you believe that will happen again this year. -- this coming year.



**John Gifford Maxim Integrated Products - President, Chairman, CEO**

I think that, uhm -- it's going to happen when it -- oh, it's going to happen. When it happens I'm not sure. But it happens -- has to happen because inventory levels are too low and any source of growth in demand will accelerate and [INAUDIBLE] that event. I think that what is probably going to, you know, we are going to have to wait until fundamentally the economy has digested the unemployment that's occurred and, uhm, and maybe is not completely over yet. And some of the spending that was going on by these companies that now aren't spending or don't exist anymore.

And I think everybody is kind of guarded to see what the -- what grassroots base level we're at and we don't still know that yet. And so, you know, we're probably, you know, 4, 5 months away from getting to a baseline. And I don't think you are going to see any --ny, uhm, any renewed enthusiasm until that happens. I think as far as economic growth, as far as stock price growth I think that's almost disconnected to business. I think we need, you know, I happen to believe that this housecleaning has to occur and it's good that we need these regulations and we need the scrutiny of these CEOs and these companies. And I think the accountant have been overblamed for the problems that are really the result of investment banking and the analyst system and the company managements. And I think I think they are doing the correct job in -- in cleaning that up. And I think once that cleans up, we are going to, uhm, people, investors will be able to take a deep breath and say I can trust this situation now. And, you know, I think that's an important event to occur or to get beyond us.

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**[INAUDIBLE] Gartner [INAUDIBLE]**

Thank you. I have a second follow-up question unrelated. It looks like this quarter there was some experimentation with some press releases and making them more available and traditionally Maxim has been fairly shy with the media. Is this, uhm, was this experiment successful or were you -- will you be going back to your old ways?

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**John Gifford Maxim Integrated Products - President, Chairman, CEO**

We have not changed anything. So I'm not sure what you're talking about. We have not done anything different. Maybe you can tell me what you're referring to because we don't know what it is.

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**[INAUDIBLE] Gartner [INAUDIBLE]**

I believe there was some press releases that were either over business wire or PR Newswire and traditionally you don't do product announcements.

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**John Gifford Maxim Integrated Products - President, Chairman, CEO**

Oh, product announcements. Oh, I think -- yeah, we are. We did actually do that. [ Laughter ] Uhm, if you want to call me back in, I'll tell you why we're doing that but that's -- nothing -- yeah. We did do that. We announced some product over press releases over the wire. We had a -- we have a tricky reason for doing that. Not very -- not very strategic.

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**[INAUDIBLE] Gartner [INAUDIBLE]**

Thank you.

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**Operator**

Next we'll take a question from Jeff Rosenberg with William Blair.

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**Jeffrey Rosenberg William Blair**

I just wanted to make sure I wasn't confused when you are talking about wireless bookings, are you talking about the wireless business unit or does that include -- is that including the products you ship in, in terms of power management into those end markets?

**John Gifford Maxim Integrated Products - President, Chairman, CEO**

No, it's just the RF stuff.

**Jeffrey Rosenberg William Blair**

Okay.

**John Gifford Maxim Integrated Products - President, Chairman, CEO**

Our wireless business unit includes cell phones, space station, all the radios, nothing to do with battery management or any sort of processing. But it's the radios, the cell phones, the wireless LANs, satellite, and space stations and consumer RF.

**Jeffrey Rosenberg William Blair**

We shouldn't [INAUDIBLE] that with your handset business in general, because there's other products you ship in out of that business unit, right?

**John Gifford Maxim Integrated Products - President, Chairman, CEO**

Uhm, out of that business unit, we ship just what I told you. The one that I said had that dramatic --

**Jeffrey Rosenberg William Blair**

I mean outside of the business unit -- other products shipping, yes, there are other products shipping into wireless equipment from other business units.

**John Gifford Maxim Integrated Products - President, Chairman, CEO**

Okay.

**Jeffrey Rosenberg William Blair**

And then also, I wanted to just ask another question about the man-month improvement during the quarter. Is that -- I mean, how much -- is there any sort of mix you can give us or just a sense of how much that's productivity versus additional, you know, bodies that have been added to the engineering force that gave you the 14 percent improvement there?

**John Gifford Maxim Integrated Products - President, Chairman, CEO**

Uhm... yeah. I think that most -- we are going to realize some productivity improvements in the coming 12 months in our engineering efforts but I think most of that was due to body -- just an added labor. Added engineering.

**Jeffrey Rosenberg William Blair**

Oh, really? That's helpful. Good.

**John Gifford Maxim Integrated Products - President, Chairman, CEO**

Yeah. I think coming forward -- going forward, we will get productivity improvements which we have done because we have done an



enormous amount of work and installed the systems that are going to we think result in some significant improvements in productivity. But -- in engineering, our product development area. But we have not realized those yet. They have not kicked in. So what we reported there I reported there was really a more a result of the added engineering that we've added over the last 12 months.

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**Jeffrey Rosenberg** *William Blair*

Okay. Great. And then the last things I wanted to see if there was any color or were willing to give on the real of the application resources of sales. I think [INAUDIBLE] listed the business units going forward. Is it more just a general effort to be more efficient there?

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**John Gifford** *Maxim Integrated Products - President, Chairman, CEO*

So, I don't want to give any more color on it. I think you can figure it out. We are not trying to be tricky. We have had a linement of customers. You can all figure out what, you what's hot and what's not. What's changes and what doesn't exist any more. What does.

And even geographically, so, you know, it was -- it's needed, you know, you don't sit there with that same key customer list and operate on that when they aren't the same people anymore. Some of them aren't there anymore.

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**Jeffrey Rosenberg** *William Blair*

Okay, thanks.

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**John Gifford** *Maxim Integrated Products - President, Chairman, CEO*

Aha.

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**Operator**

And we have a question from Bobby Burleson with Investec.

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**Robert Burleson** *Investec*

Good afternoon. Just quickly, any color on the applications or markets driving the increase in new products?

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**John Gifford** *Maxim Integrated Products - President, Chairman, CEO*

Oh, gosh. Wow, this is not going to help you much. But, you know, we have 44 product lines -- 46 product lines and they -- they're all developing new products. There's not any dramatic emphasis where we're emphasizing and one is dominating it. I would say it's across the board really.

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**Robert Burleson** *Investec*

Okay. That's fair. My other question is on the interest income line, are you guys seeing further maybe decrease to that interest income from lower interest rates like other guys out there are seeing?

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**John Gifford** *Maxim Integrated Products - President, Chairman, CEO*

Well, we're pretty flat now. But we -- you know, we had -- my approach to managing our money is that it's not our money it's our shareholders' money and we are not in the business of trying to make money on money and the worst thing you can do as a CEO is lose you know, lose money fooling around financially with it. So we've always had the philosophy of investing in 90-day -- we have gone out maybe to a year, you know, treasury. So we hit -- you know, we went down from whatever, 6 percent down to 1.5 percent interest rates.

But we have been down there, you know, already. So there was no real change this quarter over last. Okay, great. Thanks a lot.

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**Operator**

And our last question today is a follow-up question from Alec Berman of [INAUDIBLE].

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**John Gifford Maxim Integrated Products - President, Chairman, CEO**

Hey, yeah capital.

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**Alec Berman [INAUDIBLE]**

Hey, uhm, figured I'd ask this at the end of the queue. This options thing, you know, you went into a lot of detail --

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**John Gifford Maxim Integrated Products - President, Chairman, CEO**

You are going to have to speak more clearly. We can't understand you.

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**Alec Berman [INAUDIBLE]**

Oh, I'm sorry.

The options stuff, you talked about last call, you know, I agree with you that options shouldn't be extensive and all that -- expensed and all that but what's your thought on -- I mean, you are able to deduct options expenses for taxes purposes, in other words, when they get exercised, the stock, the options you are able to expense them I think the law allows to you do that. So what's your thought of that sort of strange contradiction in the -- you know, in the law that allows to you -- I just wanted to get your thoughts on that because it's....

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**John Gifford Maxim Integrated Products - President, Chairman, CEO**

Well, my thoughts on that -- the law allows you to treat -- from a tax point of view, tax law lets you take that as a deduction. And we do that. And it's a significant -- it helps our shareholders tremendously in terms of creating cash for us. So it's a positive thing for companies, for corporations and shareholders, that the tax law let's do you that.

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**Alec Berman [INAUDIBLE]**

But do you think that's sort of funny in the sense because on the one hand obviously under take what the law allows you, I wouldn't want to you do anything else but do you think it is sort of odd we're in this world where on the one hand --

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**John Gifford Maxim Integrated Products - President, Chairman, CEO**

Well, it depends on how you think about it. If Maxim, 96, 98 percent of our employees have stock options. And they probably couldn't have those stock options if we didn't have some way that allowed them not to be, you know, to get -- we get some benefit from the gain they get in the options. I mean, I don't know that -- if you want to be altruistic about it, the government is giving back to 7,000 employees a tax cut. Effectively.

I mean, they are getting a stock option as a result of this -- they are giving a tax break because to us to our shareholders because we give a stock option to one -- to 7,000 employees. We can come up with all sort -- I know that's a legitimate way to think about that there's other benefits like, you know, that are given by the government, tax breaks, when do you things for people. And this is our shares are going to our employees.

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**Alec Berman [INAUDIBLE]**

Got it. Okay. One final thing. If I come up with any good ideas, do I get to be put on the payroll? Do you get a dividend thing?

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**John Gifford** *Maxim Integrated Products - President, Chairman, CEO*

I'm sorry. Speak more slowly.

**Alec Berman** *[INAUDIBLE]*

Just joking around with you. I was saying if I come up with any other good ideas like the dividends thing that you implement, will I get like a consulting fee or bonus?

**John Gifford** *Maxim Integrated Products - President, Chairman, CEO*

Right.

**Alec Berman** *[INAUDIBLE]*

I'm just teasing you. [ Laughter ]

**John Gifford** *Maxim Integrated Products - President, Chairman, CEO*

All right. Thanks.

**Alec Berman** *[INAUDIBLE]*

Sure.

**Operator**

This concludes today's question-and-answer session. I'll now turn the conference back over to Mr. Gifford for any additional or closing remarks.

**John Gifford** *Maxim Integrated Products - President, Chairman, CEO*

We really don't have any closing remarks.

If there's anything that's not clear relative to what I said or further amplification on it, we'll be happy to take calls and clarify those things. And both Carl Jasper and myself are available to do that. Thank you.

**Operator**

This does conclude today's conference call. And you may now disconnect.

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# PLACEHOLDER TRANSCRIPT

Q2 2003 Maxim Integrated Products Earnings Conference Call

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## CONFERENCE CALL PARTICIPANTS

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**Christopher Caso** *SoundView Technology Group*

**Daniel Gelbeck (ph)** *CIBC World Markets*

**Louis Gerhardt** *Morgan Stanley*

**Clark Westmont, CFA** *Salomon Smith Barney*

**Joseph Osha** *Merrill Lynch Global Securities*

**David Wu, CFA** *Wedbush Morgan Securities*

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**Alex Burmann (ph)** *NG Edwards*

**Joseph To** *Lehman Brothers*

**Tore Svanberg** *U.S. Bancorp Piper Jaffray*

## PRESENTATION

### Operator

Maxim Integrated Products conference call will begin momentarily. Welcome to the second quarter 2003 earnings conference call. The call is being recorded. At this time for opening remarks and introductions, I would like to turn the call over to Mr. Carl Jasper. Mr. Jasper, please go ahead, sir.

### Carl Jasper *Maxim Integrated Products - VP and CFO*

Thank you, operator. And, again, I would like to welcome you all to our second quarter earnings release conference call for Maxim Integrated Products. On the call today from the company are Jack F. Gifford chairman, president, and CEO. Amanda Lazar, managing director of corporate policy and communications, Alan Hail, vice president, chief financial officer of Dallas semiconductor, and, myself, Carl Jasper, vice president of finance and chief financial officer. Before we get started, I'd like to take care of a couple of administrative items. First of all, we will be making forward looking statements on this call. In light of the private securities litigation reform act, I would like to remind you, statements we make about the future including our intentions or expectations, or predictions of the future, including but not limited to, possible statements regarding bookings and terms orders, revenues and earnings, inventory and spending levels, manufacturing efficiency or capacity, projected inmarket consumption of our product, and any other future financial results are forward looking statements. If we use words like anticipate, believe, project, forecast, estimate or variations of these words, and similar interpretations relating to the future, they are intended to be forward looking statements. It is important to note the company's actual results could differ materially from these projected forward looking statements.

Additional information about risk and uncertainties associated with the company's business are contained in the company's SEC filings on form 10-K for the year ended June 29th, 2002. Copies can be obtained from the company or the SEC. Secondly, in keeping with the SEC's fair disclosure requirements, we have made time available for question and answer period. This is your opportunity to ask questions of management concerning the quarterly results and expectations for next quarter. An operator will provide instructions at that time. Hopefully you have all had a chance to read the press release covering our Q2 results. For those of you who have not seen it, I will now cover the financial contents of the release.

Net revenue for the fiscal second quarter ending December 28th, 2002 were 286.1 million dollars. An increase over the 247.1 million reported for the second quarter of fiscal 2002, unchanged from reported revenues for the first quarter of fiscal 2003. Net income for the quarter was 77.1 million dollars. An increase over the 62.6 million reported last year and an increase over the 73.2 million reported for the previous quarter. Diluted earnings per share were 23 cents for the second quarter. An increase over the 18 cents reported for the same period a year ago and up from the 22 cents reported for the first quarter of fiscal 2003. During the quarter, cash and short-term investments increased \$158 million to \$945.7 million. After the company repurchased 500,000 shares of its common stock for \$18.3



million, paid dividends of 6.4 million and acquired a total of 8.4 million of capital equipment. Accounts receivable decreased by 12.9 million dollars in the second quarter to 122.6 million. And inventory decreased 8.4 million dollars to 127.9 million. Inventories have decreased \$19.8 million from the third quarter fiscal 2002 levels and no inventory growth is anticipated for the third quarter of fiscal 2003.

Gross margin for the second quarter increased slightly to 69.7% after increasing inventory reserves \$3 million, compared to 69.5% reported for the first quarter. Second quarter bookings were approximately 271 million dollars, up slightly from the first quarter level. Returns orders received during the quarter \$139 million, an 8% increase over the 129 million received in the prior quarter. Returns orders are customer orders that are for delivery within the same quarter and may result in revenue within the same quarter if the company has available inventory that matches those orders. Order cancellations continue to be below historical levels. Bookings increased in the Pacific Rim in Europe, but decreased in the U.S. and Japan. Second quarter ending backlogs shippable within the next 12 months was approximately \$201 million including 177 million requested for shipment in the third quarter fiscal 2003. I will now turn the call over to Jack Gifford who will provide a commentary on the quarter.

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**Jack Gifford *Maxim Integrated Products - Chairman, President, and CEO***

Thank you, Carl. During Q2, corporate bookings were up slightly. Maxim's bookings were up 4%. The following was with Dallas bookings which were down 20% over the last two quarters, 10 percent in the last quarter. We have identified the cause of the Dallas decline as primarily lost business through our U.S. Pac Rim and China distributors. We've taken corrective action and we expect significant growth in Dallas distribution bookings in Q3. Corporate turns that were up 8% quarter over quarter and again Maxim's were up 63% of bookings. The Dallas turns were down 16%. We also expect Dallas third quarter turns to grow significantly from the Q2 level. Overall bookings for the corporation were up slightly, I'll go through a little bit of color here on the various geographic markets. Q2 bookings in the U.S. were down primarily as a result of the end of the purchasing period for Christmas manufacturing, which occurred in mostly in the quarter before that. Our Industrial networking product line, however, did see growth in the U.S.

The Pac Rim bookings were up due to no booking computer rated product. Europe the bookings were up due to industrial, major orders from major industrial companies in Europe. The Telecom and the base station markets did not recover, however. Japan was slightly down from the Q1 levels. Our distribution business in the U.S. as far as their in market bookings was actually up, although the Dallas portion was down. We were up \$55 million compared to 53 for Q1. And our distributors shipped 57 million dollars. So, they had a positive book to build. Q2 beginning backlog was down 8% for the corporation overall from the beginning Q1 backlog. Bookings in turns, however, for Q3 to date are ahead of Q2. If we discounted the first week of the quarter, new year's week, the last three weeks we're averaging at a rate -- averaging such that the quarterly rate for bookings would be over 320 million dollars for the quarter. We have to wait and see, but this could be good news. We do expect to book over 295 million.

Below line spending was lower in Q2 primarily due to lower prices that we were able to obtain for engineering services, such as, working plates and other things, controlled discretionary spending such as travel and entertainment. We also had salary freeze and we reduced bonuses for below line personnel. These -- the freezes and the bonus reductions will be reinstated as soon as revenue growth improves to levels that are acceptable to us. As a result of the improved below line spending, we've gone from the beginning -- in the last 12 months from Q1 of '03 -- I'm sorry from Q1 of '03, we've gone from 32.7% below line spending to just under 31% in Q2 just ending. And this was done without -- while we increased our circuit design head counts. Of below the line during Q2, below the line head count dropped 27 people. Head counts increased, as I said, in circuit design and layout and business management. And they were reduced in primarily in the sales and the marketing communications areas and this was due, primarily, to the reassignment of accounts that I discussed briefly in our last meeting.

We were going to realign our sales organization to be more aligned with where the business would be coming from in the future. Net result was reduction in head count. Above the line spending, which affects the cost of sales, dropped 85 people. This was primarily in onshore manufacturing and shipping and offshore manufacturing. This was primarily due to the result of continuing to move the Dallas manufacturing organization off shore. Our total ending head count of -- is approximately 6,000 people. And I believe -- again, Carl can modify this if I state it incorrectly, I believe our Dallas gross margin improved to over 63%, up from approximately 60% the quarter before. So we're quite happy with that. Although inventory decreased another 8.4 million in Q2, that's a total of \$20 million that it decreased in the last four quarters, in anticipation of growth in the coming quarters, we will stop reducing inventory so we do not get in



shortage situation in market volatile areas where we expect growth. Our capital equipment expense remained one of the lowest in the industry at \$15 million per quarter or 5% of sales and 7.5% of costs of sales. Finally, our cash grew by 158 million after paying dividend of 6.4 million and repurchasing of stock of 18 million and 10 million spent for capital equipment. Our dividend, as a percent of cash, again is quite low. We'll consider an increase in the dividend rate if the current tax legislation is passed. I have no other planned comments but I would be happy and so would Carl to undertake any questions from the audience.

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## QUESTIONS AND ANSWERS

### Operator

Today question and answer session will be conducted electronically. If you would like to ask a question, press the star key followed by the digit one on your phone. Star one to ask a question. On a speaker phone, please make sure your mute function is turned off to allow your signal to reach the equipment. We will proceed in the order you signal us and take as many questions as time permits. Star one on your touch you town phone to ask a question. We will pause a moment to compile the roster. We will take the first question from Michael Masdea with Credit Suisse First Boston.

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### Michael Masdea *Credit Suisse First Boston*

Thanks. Congratulations on a clean quarter.

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### Jack Gifford *Maxim Integrated Products - Chairman, President, and CEO*

Thank you.

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### Michael Masdea *Credit Suisse First Boston*

The first question, you want to give us a sense of what you think guidance will be for next quarter in terms of revenue.

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### Jack Gifford *Maxim Integrated Products - Chairman, President, and CEO*

We think that our revenue, Mike, will be no worse than what we did last quarter. As you can tell from the numbers that I gave you, we do need to grow bookings which we think will happen. Depending on what our bookings end up and the turns, it will determine the revenue. Our plan is to fundamentally have the same revenue that we had this quarter. Great. Gross margin you talked about some cost savings from the Dallas side. What would gross margins have looked like without that. Was it a material impact and is it stable going forward. It is stable going forward, part of our grand plan to get Dallas's gross margins to the maximum levels. They are running at about 63%. And, you know, therefore, if our blended is somewhere in the 70% area, Maxim is running higher than that. So, we think that slowly they will improve to those levels. There is some inherent low margin products. Some of those products will not be able to achieve that level. The new products they are introducing, they have been quite prolific in launching and introducing products, we are quite optimistic we can achieve this goal. I would say that we are not in the short term meaning in the next year going to really see any gross margin fall off in Maxim corporate.

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### Michael Masdea *Credit Suisse First Boston*

Sounds like it's been holding on fine and nothing on the competitive landscape that has changed with the pricing, ASP's, or anything on that front.

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### Jack Gifford *Maxim Integrated Products - Chairman, President, and CEO*

There is always competition, but we are in 46 product lines. So, you know, some of them more competitive and price competitive than others. For the most part there isn't. And we pride ourselves on being, you know, the lead low cost producer where we have products in our markets. We have room. We don't, as I said before, we really don't consider price attrition a material issue.

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### Michael Masdea *Credit Suisse First Boston*

All right. Last question. Just to get more detail on the Dallas issue. Is there any certain products that this was focused on or across the board or was it a distributor logistics problem?



**Jack Gifford *Maxim Integrated Products - Chairman, President, and CEO***

They were basically two product lines that were not managed as well as they should have been. If you don't tend the store, you can lose business. And, you know, I could blame the distributors but, frankly that's not their problem. We're supposed to be paying attention to our business. So, we've corrected that and we consider it to be an aberration. Unfortunately, we didn't detect or really recognize the issues. We could have recognized that earlier but we spent -- we now have and have done the things we need to do.

**Michael Masdea *Credit Suisse First Boston***

Thanks. Great guys.

**Operator**

We will at a time next question from Chris Caso.

**Christopher Caso *SoundView Technology Group***

I thank you. Good afternoon. Just wondering if you could comment on hand sets. I guess there was an issue in the previous quarter where customers had overbooked. Could you talk about whether that issue has corrected itself and what your outlook is for the next quarter?

**Jack Gifford *Maxim Integrated Products - Chairman, President, and CEO***

Yeah, I really -- it would be difficult to comment because it's customer by customer. And we're not in the hand set business in the general sense that you are thinking of it. For instance, we are only in the CMDA aspect of the hand sets and we're in some power amplifier areas. But, our view of the hand set market is that we will see material growth in the next 12 months. And we will see material growth because of the new phones that we're in and our position in the market. We obviously -- it's Qualcomm has clearly recognized that, you know, how important we are and they've filed in our opinion a very frivolous suit in order to intimidate our customers. We are a major player in providing a low cost alternative to their chipsets.

**Christopher Caso *SoundView Technology Group***

Is there any update that you can provide us regarding that lawsuit? Anything new developed?

**Jack Gifford *Maxim Integrated Products - Chairman, President, and CEO***

We are very concerned that it's completely frivolous. We have examined all the patents. They by the way have never served us which is unbelievable. But we believe they have -- it's filed as a marketing ploy. If so, we will go to whatever extent it takes to prosecute on that basis. We believe it was filed to intimidate customers who are completely licensed by Qualcomm. So, we think it's a marketing ploy. They still have not talked to us, yet we have now talked to -- made calls saying if we don't hear from them soon, we will file a complaint. And we've examined the patents extensively, our patents, we checked with our customers about their licenses. They say there is absolutely -- they have no problem buying from somebody other than Qualcomm, so we're very upset by this. It hasn't hurt us but it was intended to.

**Christopher Caso *SoundView Technology Group***

Right. Okay. Just one final question regarding your comments on, you know, not continuing to decrease your inventory going forward. Does that -- I guess does that suggest an increase in production at the fabs, will you be running the fabs at the same levels over the next couple of quarters.

**Jack Gifford *Maxim Integrated Products - Chairman, President, and CEO***

It will be an increase in production. We will increase probably 10% in the fabs.

**Christopher Caso *SoundView Technology Group***

About 10%?

**Jack Gifford *Maxim Integrated Products - Chairman, President, and CEO***

Maybe more like 8% but in that ballpark.



**Christopher Caso** *SoundView Technology Group*

Okay. All right. Thank you.

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**Operator**

We will take our next question from Rick Schaffer with CIBC World Markets.

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**Daniel Gelbeck** *CIBC World Markets*

This is Daniel Gelbeck in Rick's place. Do you have a cancellation number for the quarter? You said it was pretty low.

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**Jack Gifford** *Maxim Integrated Products - Chairman, President, and CEO*

I do. Carl will have to look it up. It was quite low. We did one thing that made it a little higher. We have a policy that since our products are highly proprietary. We have to be careful about what our distributors buy. Often times they will buy for inventory, and we will make the product, and they will return it. We have nonreturn policy on several products. That encourages are distributors to buy only what they can resell. So having said that, I think it was 8 million. What was it last quarter. 7 million last quarter. 8 million this quarter.

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**Daniel Gelbeck** *CIBC World Markets*

With regard to product mix, do you offer a breakout of that?

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**Jack Gifford** *Maxim Integrated Products - Chairman, President, and CEO*

Of what.

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**Daniel Gelbeck** *CIBC World Markets*

Your product mix. Power management, process control, mixed signal.

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**Jack Gifford** *Maxim Integrated Products - Chairman, President, and CEO*

Revenue.

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**Daniel Gelbeck** *CIBC World Markets*

Revenue points of view.

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**Jack Gifford** *Maxim Integrated Products - Chairman, President, and CEO*

No, we don't.

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**Daniel Gelbeck** *CIBC World Markets*

All right. Thank you very much, then.

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**Jack Gifford** *Maxim Integrated Products - Chairman, President, and CEO*

Sure.

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**Operator**

Take our next question from Louis Gerherdy with Morgan Stanley.

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**Louis Gerhardy** *Morgan Stanley*

Good afternoon. Jack, you had great OPEX performance in the quarter, down 5% sequentially. Based on what you said, it sounds like we could expect it to be flat in dollars in the March quarter.

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**Jack Gifford** *Maxim Integrated Products - Chairman, President, and CEO*

Yeah. I think there is going to be -- it's hard for me to be exact. That's our plan. It could be down slightly because some of the stuff we are doing is ongoing. There is room, particularly Dallas to improve. But generally, yeah, the -- most of it has been affected but it will be slightly -- moved slightly down. Margins will continue to improve slightly.





**Louis Gerhardy** *Morgan Stanley*

And on the CMDA question, can you give us a sense of what % of your total revenue those products represent?

**Jack Gifford** *Maxim Integrated Products - Chairman, President, and CEO*

Now?

**Louis Gerhardy** *Morgan Stanley*

Yeah.

**Jack Gifford** *Maxim Integrated Products - Chairman, President, and CEO*

I would be guessing right now. It's not as big as it's going to be in the next 12 months. Let's see. What is -- Carl, what is wireless's revenue?

**Carl Jasper** *Maxim Integrated Products - VP and CFO*

Booking.

**Jack Gifford** *Maxim Integrated Products - Chairman, President, and CEO*

What's the plan? The CMDA portion of the wireless business is, I think, about a third of it. And I just -- I have to get back to you. I don't have it in front of me right here.

**Louis Gerhardy** *Morgan Stanley*

You think the CMDA wireless will be one of the fastest growing areas in the next year.

**Jack Gifford** *Maxim Integrated Products - Chairman, President, and CEO*

I think the wireless business unit will grow, one of the faster growing business units. We're a leader in the wireless lan area, satellite area, you know, even the 900 megahertz low frequency RF area, were in that area. We are in power amplifiers. We got a lot of vehicles, base stations, and CMDA is one of them. It will be a growth area for us, yeah.

**Louis Gerhardy** *Morgan Stanley*

Looking at your turns booked, it's just shy of your historical high number there. How well is the organization prepared to, you know, keep shipping higher level of turns business as a percent of total revenue? Have you made any changes to accommodate it?

**Jack Gifford** *Maxim Integrated Products - Chairman, President, and CEO*

I think -- that's a good question. A thoughtful question. We are clearly going to, you know, watch where we know that we have volatile products, turn at the last moment or tend to, we will put more inventory in on those products.

**Louis Gerhardy** *Morgan Stanley*

Okay. Last question --.

**Jack Gifford** *Maxim Integrated Products - Chairman, President, and CEO*

Stop reducing the inventories. That has the same effect.

**Louis Gerhardy** *Morgan Stanley*

Right. Could you break down your bookings by region. Do you have that handy?

**Jack Gifford** *Maxim Integrated Products - Chairman, President, and CEO*

Yeah, I do.

**Louis Gerhardy** *Morgan Stanley*

Gross bookings, right?

**Jack Gifford *Maxim Integrated Products - Chairman, President, and CEO***

Okay. The -- inmarket bookings, let me deal with inmarket bookings. This is a pie chart. This will be just as well. The U.S. is 32%. Europe -- that's down from 35 last -- I'm sorry. Down from -- hang on one second. Yeah. That's down from 35% last quarter. The Europe was 20%. That's up by one -- up from 19 last quarter. Pac Rim is 11%, which is -- no, I'm sorry. These lines are -- Japan is 11%. Down from 12%. And the Pac Rim is 36% up from 34%.

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**Louis Gerhardt *Morgan Stanley***

And that again is gross direct customer bookings.

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**Jack Gifford *Maxim Integrated Products - Chairman, President, and CEO***

That is inmarket bookings. Those are orders from a real customer. As opposed to a distributor. I'm sure you are aware a lot of Pac Rim stuff is U.S. Designed material that they buy and build in the Pac Rim.

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**Operator**

We will take the next question from Clark Westmont with Solomon Smith Barney.

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**Clark Westmont, CFA *Salomon Smith Barney***

Could you break down the bookings by inmarket applications, or give us a flavor of what areas were relatively better or relatively not as strong?

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**Jack Gifford *Maxim Integrated Products - Chairman, President, and CEO***

Yeah, I can. We have to look at it here. I'm just going to tell you in terms of up or down, okay? The portable equipment business was down slightly. Communications market was over all down slightly. That has telecom in it that drug it -- drag it down. Telecom was down again from -- it continues to go down. Our data converter business was up materially. Our standard products business, which is the most broad of all of our business units, it covers everything, it was up slightly -- up measurably. And, you know, that pretty much in broad categories covers everything.

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**Clark Westmont, CFA *Salomon Smith Barney***

Then you mentioned that you thought bookings would be up fairly significantly sequentially in March. Are there any areas that you think will lead that versus others.

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**Jack Gifford *Maxim Integrated Products - Chairman, President, and CEO***

Well, yeah, I think the Fall business will be up. The notebook business will be up. And the Industrial sectors, they were up last quarter. I think they will be up this quarter. We've seen three good weeks in a row. That's at high levels. That tells me -- I really believe that we will see a significantly better quarter.

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**Clark Westmont, CFA *Salomon Smith Barney***

This is my last question. You mentioned sales would be no worse than last quarter. Also no better or with that high level of bookings and turns.

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**Jack Gifford *Maxim Integrated Products - Chairman, President, and CEO***

It's a completely a function of where the bookings end up and how much of it are turnable and whether we can turn them.

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**Clark Westmont, CFA *Salomon Smith Barney***

Okay. Thanks a lot.

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**Operator**

Next question from Joseph Osha with Merrill Lynch.

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**Joseph Osha *Merrill Lynch Global Securities***

Hi, thanks. Can you hear me okay.

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**Jack Gifford** *Maxim Integrated Products - Chairman, President, and CEO*

Sure can.

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**Joseph Osha** *Merrill Lynch Global Securities*

Wonder if you could comment a little bit specifically on the notebook and market. There seems to be a lot of design activity being driven by the introduction of Banias. Is that something that could move this slice of your business up materially and I have a follow-up?

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**Jack Gifford** *Maxim Integrated Products - Chairman, President, and CEO*

I don't believe so. It's already -- we are established in the sectors we are in, and I think we will make progress in the display area, but there is also competition in some of the other areas. I expect it won't change a percentage of our business.

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**Joseph Osha** *Merrill Lynch Global Securities*

Okay. The second question, it seemed based on the calls I was making that there was a rather hard draw down of inventories held by distributors, especially in the latter part of the December quarter, and now perhaps that that might be reversing. I was wondering if you could comment, particularly in light of the effect that we will enter a little bit of a dead period here because of the lunar, new year, then pick back up. I'm wondering what the tone of what you are getting from your distributors is relative to the end of last quarter.

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**Jack Gifford** *Maxim Integrated Products - Chairman, President, and CEO*

Well, actually, the distributor inventories did go down. But, frankly, we had an aberration that I alluded to in terms of the Dallas booking, and had the Dallas results been as expected, we would have actually had significant increase in bookings and felt it more so than I reported. So, I would say that the distributors are actually seeing a better business environment right now.

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**Joseph Osha** *Merrill Lynch Global Securities*

Do you think you might be getting loaded up here a little bit in front of a quiet period, first part of February because of lunar new year.

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**Jack Gifford** *Maxim Integrated Products - Chairman, President, and CEO*

You mean the lunar new year.

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**Joseph Osha** *Merrill Lynch Global Securities*

Chinese new year.

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**Jack Gifford** *Maxim Integrated Products - Chairman, President, and CEO*

No, no, I think our distributors are inventory conscious. They really don't start to do that until they are feeling shortages. So -- because they compete with one another. In our case that doesn't happen that often. We have two distributors in the U.S. and they have the same part. I don't expect any bizarre behavior or ordering patterns to occur.

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**Joseph Osha** *Merrill Lynch Global Securities*

Just to confirm, other than Arrow, your other large distributor is who?

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**Jack Gifford** *Maxim Integrated Products - Chairman, President, and CEO*

Abnet.

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**Joseph Osha** *Merrill Lynch Global Securities*

Okay. Thank you.

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**Operator**

Next question from David Wu with Wedbush Morgan Securities.

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**David Wu, CFA Wedbush Morgan Securities**

Can you help me on two fronts. What exactly went wrong with Dallas on the conductor last quarter and as I recall, Dallas was, i honestly couldn't remember. What was the relative size of Dallas to the total corporation and should I reape the fact that you are increasing wafer stocks, I assume, in the March quarter meaning that you really see business bookings improving in the March quarter and shipment improving in the June quarter, that's the reason why increasing wafer starts? Am I reading it right.

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**Jack Gifford Maxim Integrated Products - Chairman, President, and CEO**

Well, you always ask a number of questions. I have trouble remembering. The first one, I would like to see if I can go back and answer the first one -- the first question first. Dallas's revenues are approximately 25% of our business. And their profits are also, you know, rather less than that because of the margins, but not much less. So, they have that kind of an effect on us. And the problems that they had were very tactical and not strategic. I mean, they -- they just were very -- I mean, in their defense, I mean their business management people, guys that run the business, are focused on new product development, new product definition and they take for granted a little more than they should, they did. What is happening on a daily business relative to the orders, winning, losing and pricing and that sort of thing. And the people that -- in the trenches doing that were not really the -- as experienced and as good as doing that as they should have been. General manager wasn't paying as much attention as they should have been. Errors were made that shouldn't have been made. But very correctable and have been corrected. And that's the answer to your first question. Is that right?

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**David Wu, CFA Wedbush Morgan Securities**

Yeah.

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**Jack Gifford Maxim Integrated Products - Chairman, President, and CEO**

Second question, I believe, is having to do with what should you read into the fact that we're going to slightly increase our wafer move. We certainly -- well, we have -- we have a fixed expense pretty much to make -- run our fabs. And the fabs without spending any more money could produce easily 10% more wafers, you know, other than a small amount of money for starting materials or whatever. And we've chosen -- up until now, we chose to actually not do that. We would just run with less efficiency. So -- we still wouldn't increase the output if we didn't anticipate that we could benefit from the output in some market or business way. So we are going to increase the output of wafers which would create an inventory profit, a small amount. It would go from -- probably have flat inventory growth this quarter rather than down. But that helps the productivity of there fab. That's not why we are doing it. We are doing it because, I believe, I can't remember Joe or somebody asked earlier, what will are you doing to help yourself with turns. If you want to turn more business. One of the things, having more material on products that you guess are going to be the ones that turn will help that. We also, because, mostly, some of the markets we are in are very -- the customers are hand to mouth and we just hate to get into these expedite modes where they miss forecast and they have growth and then, you know, we have the same problem, they need product, we have to scramble around which is very disruptive. We are trying to minimize the effect of that in the next cycle. We will try to guess where to build some of that stuff.

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**David Wu, CFA Wedbush Morgan Securities**

Okay. Thank you.

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**Operator**

We will take our next question from Jeff Rosenberg with William Blair & Company, LLC.

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**Jeffrey Rosenberg William Blair & Company, LLC**

Hi. on the end market consumption estimate you make, last quarter 290, has that changed?

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**Jack Gifford Maxim Integrated Products - Chairman, President, and CEO**

For which quarter.

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**Jeffrey Rosenberg William Blair & Company, LLC**

I think you said last quarter that your estimate for inmarket consumption. Your last conference call, 290. I'm wondering if that's still the same number. For Q2 or 3.



**Jack Gifford Maxim Integrated Products - Chairman, President, and CEO**

For Q3? I think our inmarket number is very close to 290. I'm trying to -- I saw the number. I don't know where to look to find it right, again. I think that is our shift demand number what we call it. Yeah, basically 290.

**Jeffrey Rosenberg William Blair & Company, LLC**

How are you projecting that.

**Jack Gifford Maxim Integrated Products - Chairman, President, and CEO**

Between 290 and 292.

**Jeffrey Rosenberg William Blair & Company, LLC**

Okay. What is the projection look like over the next, you know, into Q4 or Q1 of '04. How is it progressing over the next few quarters?

**Jack Gifford Maxim Integrated Products - Chairman, President, and CEO**

The consumption is predicted to go up at a higher rate it's been going up. That's what we are told.

**Jeffrey Rosenberg William Blair & Company, LLC**

A question on R&D, you gave the productivity in man month's this quarter and I think last quarter you said you introduced 173 products and that had been a strong quarter relative to 120, 139 the couple quarters before. I'm trying to learn how to equate -- is the 427 a number that is closer to the 120, 140 number or equivalent to the sort of strong quarter 173 you had in Q1?

**Jack Gifford Maxim Integrated Products - Chairman, President, and CEO**

Well, first of all, the reason we go to the man month is almost impossible to do -- to get -- to equate it to products. We have products that are only like, basically, three man months to develop and we have others more than a few that are in excess of 20 man months, as high as 40 man months of product. So, it just gets to be, you know, so it becomes confusing -- we are really confusing you and I don't want to say misleading, but the fact is you really don't have much of an idea at all, as to the productivity, if I talk to you products. I need to talk to you about man month's introduced. That's meaningful. Having said that, our man months introduced this quarter were less than the man months introduced last quarter. But that happens. I mean, it's not a linear thing because if you can imagine, the number of products we have in development and some of them have three man month maturities or design times and others have 40. You got peaks and bubbles. We expect clearly for the year that our man months introduced will be up from last quarter, last year's man months introduced. There is irregularity quarter to quarter. Remember a couple of quarters ago there was a big blip, positive blip. I think we introduced 46% more man months in one quarter over another, if I recall. And, you know, that's not normal either, right.

**Jeffrey Rosenberg William Blair & Company, LLC**

Okay. And when you look at the increase of 18% versus the flat absolute spending on R&D, it sounds like a some of that is expense controls and things that you are doing that is temporary. Is there anything more going on in terms of productivity, how you are holding if you look at R&D dollars, pretty flat and you have an 18% increase in man months?

**Jack Gifford Maxim Integrated Products - Chairman, President, and CEO**

We -- no, obviously, we've done some things that we want to -- you know, we didn't feel across the board in the entire company we didn't feel it was appropriate to pay bonuses out as if we were blowing the balls off things and so everybody in a cooperative way have had their bonuses reduced in some cases -- my case 100%. On average, the cash reduction of bonuses has probably been 50%, maybe lower. Maybe 40. But it's in that ballpark. We want to restore it which we think that we are delivering results that people are going to -- our share holders will be happy with. Same goes for, you know, we have a salary freeze for everybody which, you know, has -- which started a couple of -- started in Q1 I guess but that's -- that has -- if you take average increase of 3, 4, or 5%, we aren't doing that, so we won't reinstitute that until -- our thought was it would be four quarters from Q1, because we wouldn't be fair to the ones getting reviewed in the fourth quarter to not have a freeze and the other ones to have it. Our objective is to restore that as soon as possible. The other thing, though, that we are planning on doing, going forward here, our first priority is to meet our head count requirements in the product development area and we feel that, as I told you in previous meetings, with the acquisition of Dallas, fortunately we have abundance of engineering might be too dramatic a statement, but our head count already puts us in good status to meet our new development plan



without adding anybody this year. We are, though, going to hire, continue to hire critical engineers as they become available to us. That can make contributions.

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**Jeffrey Rosenberg** *William Blair & Company, LLC*

You're saying some of what we are seeing here is increased productivity, Dallas people, just in general, in terms of the output per your capacity so to speak of man months.

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**Jack Gifford** *Maxim Integrated Products - Chairman, President, and CEO*

There is no doubt that the Dallas people are making a significant contribution in engineering productivity. We are very happy with the products that are launching, the minute we reduced the iteration rate, the definition quality is improved and ability to improve tremendously. They are well along, they are ahead of the plan we had for them as to where they would reach this level of maturity and professionalism. I'm quite happy with them. They are right now as good as anybody else has got or probably better. We are getting that pickup. There is no doubt about that.

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**Jeffrey Rosenberg** *William Blair & Company, LLC*

Great, okay. Thank you.

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**Operator**

We will take the next question from Woody Calleri with Midwest Research.

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**Woody Calleri** *Midwest Research*

Good afternoon, gentlemen. I had a couple of housekeeping questions, first. Jack, could you tell us what the turns shipped in the quarter was.

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**Jack Gifford** *Maxim Integrated Products - Chairman, President, and CEO*

53% last -- wait a minute. Am I right on that, Carl? I'm not right.

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**Woody Calleri** *Midwest Research*

That seems low.

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**Jack Gifford** *Maxim Integrated Products - Chairman, President, and CEO*

Turns shipped, as Carl hands me this, 70 -- I'm sorry. You better just -- Q2 actuals Maxim and Dallas. What am I looking at? This is the wrong column. Q1 turn ship was 61%. The Q2 turn ship were 75%.

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**Woody Calleri** *Midwest Research*

Okay.

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**Jack Gifford** *Maxim Integrated Products - Chairman, President, and CEO*

Shipped 139 -- we shipped 104 million out of 139 turned and quarter before we shipped 90 million out of 129 million.

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**Woody Calleri** *Midwest Research*

Okay. Then any 10% customers this quarter?

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**Jack Gifford** *Maxim Integrated Products - Chairman, President, and CEO*

No. No.

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**Woody Calleri** *Midwest Research*

Okay. Am I right in thinking that your backlog dropped by 8% this quarter. You will need increased turns to stay flat on revenues?

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**Jack Gifford** *Maxim Integrated Products - Chairman, President, and CEO*

Yes. That's right.



**Woody Calleri *Midwest Research***

Okay. And given that Dallas, the concern there seems to have been fixed and you are expecting better bookings, better revenue, this is normally a strong quarter for most of the analog guys, as we have more shipment days, why the flat guidance, especially given the first few weeks have been strong coming out of Asia pacific.

**Jack Gifford *Maxim Integrated Products - Chairman, President, and CEO***

First question absolutely identified it. We're counting on turns. That's shaky. You got to be able to ship the turns, too. We don't want to get something, you know, better could happen but we can't predict -- we have to execute on that.

**Woody Calleri *Midwest Research***

You said, quota the date was up on bookings. Can you give us areas that were strong?

**Jack Gifford *Maxim Integrated Products - Chairman, President, and CEO***

I don't have it. I should have it, but I don't. I'll find it out if someone wants to call. I can give you that advice

**Woody Calleri *Midwest Research***

Okay.

**Jack Gifford *Maxim Integrated Products - Chairman, President, and CEO***

I just don't know what it is right now. It's up enough that I should know it.

**Woody Calleri *Midwest Research***

Okay. Can you talk a little bit about what your plans in wireless lan are. I know you've gone from the PA to integrating out, just about everybody else that was compete with you. Are you going to provide a complete 802.11B or A solution, or stop where you are now, other areas you plan to push that technology into.

**Jack Gifford *Maxim Integrated Products - Chairman, President, and CEO***

We will take that to death. We are going to take that to commodity stage. We will be the leader in 802.11 chipsets. We have good partners. We are doing everything anybody would want. Our technology is -- we get better performance and high levels of performance. We're doing the B, the A, the A+G, all of them.

**Woody Calleri *Midwest Research***

You plan on becoming a major threat to Intercell in that market.

**Jack Gifford *Maxim Integrated Products - Chairman, President, and CEO***

We already are. Absolutely. We are definitely -- I think you could confirm with our customers that we're more than a threat to them. I think you got it backwards.

**Woody Calleri *Midwest Research***

I will give you that one. In terms of last couple quarters, you've written off a bunch of inventory. Has any of that come back and benefited gross margins over the last couple quarters?

**Jack Gifford *Maxim Integrated Products - Chairman, President, and CEO***

I'm trying to see. Why would it come back.

**Woody Calleri *Midwest Research***

Are you selling written off inventory.

**Jack Gifford *Maxim Integrated Products - Chairman, President, and CEO***

No. No. We didn't write off anything that didn't have some -- we're not doing that. We don't do that. The inventory we write off has some basis for being written off.





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**Woody Calleri** *Midwest Research*

Just given the % of R&D's running 23, 24% and historically you've been at 15, 16%. How long do you feel comfortable running at 23, 24 before you need to bring that down or do you see revenues taking off at some point in the next year and knocking that back down to the 15, 16 historically it's been?

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**Jack Gifford** *Maxim Integrated Products - Chairman, President, and CEO*

Yeah. That's right. You said it.

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**Woody Calleri** *Midwest Research*

What, you will cutback over you are hoping revenue takes off?

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**Jack Gifford** *Maxim Integrated Products - Chairman, President, and CEO*

We want to be -- with revenue growth, we would like to be back where our total below the line is in the 25 to 27% area.

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**Woody Calleri** *Midwest Research*

Okay. Last question and I'll let somebody else go here, deferred income to distributors, 13, 14% this quarter. Anything particular around that or is that the Dallas part or is that just pulling back on the inventory.

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**Jack Gifford** *Maxim Integrated Products - Chairman, President, and CEO*

That's just due to them reducing inventories. You know, improving their book to bill or whatever you want to call it, and we're part of that problem, if -- it's not a problem, but we are careful about not shipping into inventory for them. We don't want them to have inventory, particularly because in some cases they can return it, you know, and at Maxim it's difficult we don't have policies that allow it. It's just as much our inventory management of their inventory than anything else.

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**Operator**

Take our next question from Krishna Shankar with JMP Securities, LLC.

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**Krishna Shankar** *JMP Securities, LLC*

Thank you. My question has been answered.

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**Jack Gifford** *Maxim Integrated Products - Chairman, President, and CEO*

Okay. You're welcome.

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**Operator**

And we will go next to Ross Seymore with Deutsche Bank Securities, Inc.

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**Ross Seymore** *Deutsche Bank Securities, Inc.*

Last quarter you characterized the pricing environment as take no prisoners. Have you seen any change in that? Has it gotten worse, better, stayed the same level of very aggressive pricing?

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**Jack Gifford** *Maxim Integrated Products - Chairman, President, and CEO*

I wish that some of the business managers had heard that comment. I'm laughing because obviously they took some prisoners. But there is no -- there is no basic pricing problems out there. But we don't want to lose business on price. We don't want to be -- we don't want to be destroying markets either, but if we got -- most of our business comes from products we designed in. In the Dallas cases, they lost orders on businesses they had invented, which they won't do any more because they didn't choose to be competitive, either consciously or unconsciously. We got the cost structures to not lose orders. So, we won't lose them. But I don't -- nothing has happened since the last conference call that changed that environment.





**Ross Seymore Deutsche Bank Securities, Inc.**

Great. A bit more of an industry level for quite some time we have been hearing that turns orders historic highs as a percentage of total revenues and visibility was at historic lows and people keep saying that that can't last but it seems to be more persistent than anyone imagined. In your experience, what will turn that around other than the obvious answer just simply being demand?

**Jack Gifford Maxim Integrated Products - Chairman, President, and CEO**

You know, the visibility, the customers are just -- are not prepared. They want flexibility. They are realizing their markets are fickle. Today's world is -- quick is good and slow is dead. They got to anticipate what people are going to buy, and have it. So their interest in inventories is more than an economic one. They just oftentimes don't -- have a lot of notice as to where they will get to and go to and which products are going to sell and which are not. We don't like to -- I can remember years ago that it was sort of a statement to say, "I'm in the consumer business." But frankly, a lot of what has sold in micro electronics today is a consumer product. If it's -- an automobile is. Computer as consumer product. Like it or not, we and our customers are in the consumer business. We are not, you know -- our industrial market segment is material, but it's not a majority of it. So, any time you are selling product that depends on the consumer's desires, it ripples back to us, too. They want flexibility, our customers do, and I think this idea of long -- of no long-term planning is really actually is planning. They really want to be able to react quickly to change. Now, where that blows up on them is where they are so hand to mouth, and so ready to move in one direction or another, which something does take off or we have a turn, we have growth which we will have, they get in situations where their suppliers can't react. That's what you will have happen.

**Ross Seymore Deutsche Bank Securities, Inc.**

Great. Thank you.

**Operator**

We will take our next question from Alex Burmann with NG Edwards. Thank you.

**Alex Burmann NG Edwards**

Hey, how are you doing. A couple of questions. First of all, your major competitor, Linear, did say that --

**Jack Gifford Maxim Integrated Products - Chairman, President, and CEO**

That's not correct, by the way. That's not a correct statement. Our major competitive is not Linear.

**Alex Burmann NG Edwards**

I guess [INAUDIBLE] would be similar company.

**Jack Gifford Maxim Integrated Products - Chairman, President, and CEO**

That's not even correct.

**Alex Burmann NG Edwards**

Okay.

**Jack Gifford Maxim Integrated Products - Chairman, President, and CEO**

ADI are more similar than it is to us.

**Alex Burmann NG Edwards**

Okay. Got it. Fair enough. They talked about some issues with ASP's, not a problem but due to package sizes and mixed shipping to the consumers, they talk about a pricing sort of coming down to them in the last quarter. Is that a trend that you have seen at all, or do you think it's an industry trend. I want to get your take on that?

**Jack Gifford Maxim Integrated Products - Chairman, President, and CEO**

Not to delve in ltc's business, I don't know it very well, our ASP's frankly -- our products are being more integrated, a higher level of integration, which doesn't say they are any more profitable but that means ASP's will not go down, they will probably go up. In other



words, if you go from building chips of one size to chips that are now 50% bigger, you must be selling more content, so you get a higher ASP. It doesn't say anything about your gross margins. So, I don't think ltc -- I know, they don't sell the level of integration that we do. For instance, they don't build any of the wireless lan stuff. They don't build the phone stuff, the complicated data converters that are big. So -- and expensive. So, it's not surprising that there ASP's might go down. It doesn't mean the margins will go down, and consequently because it doesn't go down or up doesn't mean the margins will go down or up either.

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**Alex Burmann NG Edwards**

Also, do you -- just looking through the 30,000 [INAUDIBLE] you are thinking of yourself as a 30% growth company. I guess you are looking at the end markets, if I look at a lot of them, they appear like they have slowed not so much for GDP reasons, some they slowed like wireless, pc, they don't grow as fast in the future as they did in the past.

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**Jack Gifford Maxim Integrated Products - Chairman, President, and CEO**

You got a lot of insight that I don't have have. I just see the wireless business exploding. I can't imagine anything being built in the future that doesn't have a wireless connection. We disagree.

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**Alex Burmann NG Edwards**

I'm pointing, specifically to the wireless hand set.

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**Jack Gifford Maxim Integrated Products - Chairman, President, and CEO**

I guarantee you that analog phone sets won't grow and GSM won't grow. That's small, nobody expects them to be growth areas. What you are implying is that low cost data, voice and data is not going to be desired more in the future than in the past. I just don't agree with you.

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**Alex Burmann NG Edwards**

No, I agree with you that demand will grow, I'm saying if you look at each of the end markets, it seems that the growth rates have slowed.

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**Jack Gifford Maxim Integrated Products - Chairman, President, and CEO**

I really can't comment on that. You are much closer than I.

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**Alex Burmann NG Edwards**

Fair enough. One final question. Just, I mean, it seems like most of the other companies in semi's that I follow break down revenues in application and it's helpful to investors. I know you haven't done it in the past. I'm not suffer if it's something that you -- a lot of people ask. Every conference call people ask what is the revenue per application. You say you don't want to say.

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**Jack Gifford Maxim Integrated Products - Chairman, President, and CEO**

It's Proprietary. Where our product planning and direction goes is, you know, that's proprietary as the product itself. We are not interested in having our competitors know where we are focusing.

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**Alex Burmann NG Edwards**

All right. Thanks.

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**Operator**

We will take the next question from Joseph To with Lehman Brothers.

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**Jack Gifford Maxim Integrated Products - Chairman, President, and CEO**

I want to comment one more time on that last question. I also don't believe our shareholders who own our shares would be pleased with me giving away that information because it's not in their best interest either.

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**Joseph To Lehman Brothers**

Jack, I missed the beginning of the Q&A. Could you go over the revenue and market guidance. Gross margins.



**Jack Gifford Maxim Integrated Products - Chairman, President, and CEO**

Gross margins in the 70% area. Revenues will be right now as best we can tell will be flat.

**Joseph To Lehman Brothers**

Okay. Secondarily you guys purchased a bit of capital equipment this quarter. Any specific reason? Cheap or increase capacity or what was the reason behind that?

**Jack Gifford Maxim Integrated Products - Chairman, President, and CEO**

We actually have, you know, the equipment we are buying is to increase our test capacity, actually. There is growth. The growth are requiring in different packages. It's been a package evolution. So, we are buying handlers for packages that, you know, we didn't have enough of. And -- very little, I mean, it's a small number. It's not a strategic issue. There is no news other than that in our capital purchases.

**Joseph To Lehman Brothers**

All right. Thank you very much.

**Operator**

We will take the next question from Tore Svanberg with U.S. Bancorp.

**Tore Svanberg U.S. Bancorp Piper Jaffray**

Yes, good afternoon. Jack, looking at your wireless lan business, is your competitive edge there primarily in the process technology that you use, or is there anything else worth noting perhaps power consumption or packaging, anything like that?

**Jack Gifford Maxim Integrated Products - Chairman, President, and CEO**

I think -- yeah, I think our process technology helps us immensely. Because of what we can do with our process and with the -- it allows us to use architectures that basically give higher performance than our competitors. The -- these are things like noise slowness, other things that are sensitivity determining issues. It also allows us to do that and provide a high level of integration. And I think we are clearly benefiting from that. Having said that, there is definitely a price floor or price ceiling. It is a cost driven market, not driven as much by our competitors as by the applications. So, you know, I think we have -- I think we have advantages both in performance and I think we have advances in cost as a result of our process technology and design choices. But I think we also did a good job of recognizing that this was an area that -- To be in and we began in that area early. And that's always a key thing to do. Mostly deciding what not to do and what to do. And that's how you win or lose. And, so, we made the best in that area versus other bets we didn't make and I think we will be in good shape because of it.

**Tore Svanberg U.S. Bancorp Piper Jaffray**

Very well. Would you care to comment on a ballpark number how much your revenue comes from silicon, germanium wafers.

**Jack Gifford Maxim Integrated Products - Chairman, President, and CEO**

10 or 15%.

**Tore Svanberg U.S. Bancorp Piper Jaffray**

Okay. Very well. Just finally, you know, just based on some of the questions that were asked earlier, comparing with other companies, if you look at Maxim today, how much would you define Maxim being pure analog versus mixed signal.

**Jack Gifford Maxim Integrated Products - Chairman, President, and CEO**

Pure analog less than 10%.

**Tore Svanberg U.S. Bancorp Piper Jaffray**

Excellent. Thank you very much.



**Operator**

We do have a follow-up question from Clark Westmont with Solomon Smith Barney.

**Clark Westmont, CFA Salomon Smith Barney**

I am wondering on the visibility and backlog trends, with distributors in general they are doing more consignment business with the contract manufacturers. Is that something -- various terms consignment or vendor management, a couple of different things. Is that a broad trend. Are you seeing it or does it affect your backlog visibility, sort of a permanent change or any thoughts you might have along that general line.

**Jack Gifford Maxim Integrated Products - Chairman, President, and CEO**

Okay. Yeah, it's not something that has just occurred Clark. It's going on a couple of years, maybe longer. But it is obviously -- it's something that the distributors have had to do to stay in business, frankly. The contract manufacturers have said we want this inventory. We will not be responsible for it. If we don't want it, we can't use it, we will give it back to you. It had a result, we did take an action a year ago as a result of that, what was going on and what was happening, our distributor, the distributors, I don't blame them for this, but they have these arrangements with integrated circuit companies which for years to me have been untenable but they would be able to return inventory that they bought from a semiconductor industry company at -- with no liability. In other words, they could order whatever they want. If they said I want a million of these parts in my location and be able to return them, the distributor could literally order that from Texas Instruments or us or ADI and we would build them and ship them and give them to the contract manufacturer and if the contract manufacturer could only use half of them, he would return the other half and they would then return them back to the semiconductor company and they are allowed to return 5% what have they buy every quarter. So they could get them all back to the IC company. The thing that is disastrous about that, these parts, they would buy them in such big quantities, that there wasn't another market for them. And because Maxim's business is highly proprietary meaning there aren't multiple sources for most of our stuff and this was a really dangerous situation that was expanding, we developed a policy which is called noncancellable, nonreturn parts. So -- and most of our product line is that. And it was put together primarily to eliminate that liability for us. In other words, if a distributor buys one of these, he owns it. If he wants to buy them and give them to a contract manufacturer and take them back, he can do what he wants to. But he can't pass on that liability to us.

**Clark Westmont, CFA Salomon Smith Barney**

So the deferred income on shipments to distributors on your balance sheet, is that the business that remains that does go through -- it's a no return privilege.

**Jack Gifford Maxim Integrated Products - Chairman, President, and CEO**

We don't actually take any accounting advantage of that, although we could, clearly could. But we just treat all of the inventory with our distributors as consigned inventory from an accounting point of view and only take as revenue the delta that they ship. But we could, in fact -- do what you said with you we won't do that.

**Clark Westmont, CFA Salomon Smith Barney**

So I understand, you recognize revenue on point of sale out of [INAUDIBLE] though they don't have return privileges.

**Jack Gifford Maxim Integrated Products - Chairman, President, and CEO**

That's correct. And they have -- I don't have the exact number, but I think they have return privileges on probably maybe 30%. Less than half of our product.

**Clark Westmont, CFA Salomon Smith Barney**

Okay. Thanks a lot.

**Operator**

And we do have question ladies and gentleman from Krishna Shankar.



**Krishna Shankar *JMP Securities, LLC***

In wireless do you ship the complete chip set including the power amplifier, transceivers and base end processor.

**Jack Gifford *Maxim Integrated Products - Chairman, President, and CEO***

We don't make base end processors. We do.

**Krishna Shankar *JMP Securities, LLC***

So other companies with the baseband.

**Jack Gifford *Maxim Integrated Products - Chairman, President, and CEO***

We do.

**Krishna Shankar *JMP Securities, LLC***

Are you shipping the 802.11A and G transceivers and power amplifier in volume now.

**Jack Gifford *Maxim Integrated Products - Chairman, President, and CEO***

No, not in volume.

**Krishna Shankar *JMP Securities, LLC***

Okay. Thank you.

**Operator**

That does conclude today's question and answer session. At this time I will call the -- turn the call over To Mr. Jasper for any closing comments.

**Carl Jasper *Maxim Integrated Products - VP and CFO***

Thank you. This does conclude Maxim's conference call. We would like to thank you all for your continued participation and interest in Maxim. Thanks.

**Operator**

This does conclude today's conference call. We appreciate your participation. You may disconnect at this time

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**Tom Thornhill (ph)** *UBS Warburg*

**Matthew Chan** *Merrill Lynch*

**Gregory Calleri** *Midwest Research*

**Clark Fuseman (ph)** *Fulcrum Partners*

**Tore Svanberg** *Us Bancorp Piper Jaffray*

## PRESENTATION

### Operator

Good day and welcome to the Maxim Integrated Products first quarter 2003 earnings release conference call. Today's call is being recorded. At this time, for opening remarks and introductions, I will turn the call over to Mr. Carl Jasper, Vice President of Finance and Chief Financial Officer for Maxim Integrated Products. Mr. Jasper, please go ahead.

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### Carl Jasper *Maxim Integrated Products - CFO, VP Finance*

Thank you, operator. And again, I would like to welcome you all to our third quarter earnings release conference call for Maxim Integrated Products. On the call today from the company are: Jack Gifford, our Chairman, President, Chief Executive Officer; Amanda Lazar, our Managing Director of Corporate Policy and Communication; Allen Hale, our Vice President and Chief Financial Officer of Dallas Semiconductor; and myself, again, Carl Jasper.

There are a couple of administrative items I would like to take care of before we cover our results for the quarter. First of all, we will be making forward-looking statements in this call. In light of the private securities litigations format I would want to remind you statements we make about the future, including our intentions or expectations or predictions of the future including, but not limited to possible statements regarding bookings and turns orders, revenues and earnings, inventory and spending levels, manufacturing efficiency or capacity, projected in-market consumption of our products and any other future financial results are forward-looking statements. If we use words like "anticipate, believe, project, forecast, estimate" or variations of these words or similar expressions relating to the future they are intended to identify forward-looking statements. It is important to note that the company's actual results could differ materially from those projected in the forward-looking statements.

Additional information about risks and uncertainties associated with the company's business are contained in the company's SEC filing on form 10-k for the year-ended June 29th, 2002. Copies can be obtained from the company or the SEC. Secondly, in keeping with the SEC's fair disclosure requirements, we have made time available for our question and answer period. This will be your opportunity to ask questions of management concerning the quarterly results and expectations for next quarter. An operator will provide instructions at that time.

Hopefully, you have all had a chance to read the press release covering our Q3 results. Instead of me reading the financial contents of the



press release, I want to amplify a couple of points. In the release, we communicated that bookings were up in all geographic areas except Japan, where bookings were down 5% quarter over quarter. While this is true for bookings placed on Maxim, actual in-market bookings which are bookings placed by our customers directly on Maxim or through our distribution channels, was up 5% in Q3 over the Q2 level.

I would also like to point out that our 12-month backlog for the start of the fourth quarter is \$219 million, of which \$196 million is scheduled for shipments in Q4, '03, and 15 million scheduled for shipment in the first quarter of 2004. So practically all our backlog is right in front of us at this time. Cancellations continue to be low. Order cancellations were \$4.6 million in the third quarter compared to \$7.8 million in the second quarter. This is a 41% decrease.

Lastly, the board has increased a Q4 dividend rate from a 2 cents per share to 4 cents per share. This will result in a dividend payment of approximately \$13 million to be paid on May 30th, 2003 for shareholders of record on May 12th, 2003.

At this time, I would like to hand the call over to Jack Gifford for his commentary on the quarter.

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**John Gifford Maxim Integrated Products - Chairman, President, CEO**

Thanks, Carl. I'm going to begin with some prepared remarks and then we'll take your questions. As the press release stated, orders were up for the company overall 14% from last quarter. And last quarter we indicated that while Maxim's bookings without Dallas were up 4% for the previous quarter, Dallas bookings were down 10%. For the quarter just ended, Maxim's bookings without Dallas were up 11%, and we are happy to report that Dallas's bookings were up 22% from the second quarter levels.

Having said that, we would like to see Dallas bookings rise from their current levels of 58 million a quarter up to over 100 million a quarter, and our basis for that desire is that -- prior to our acquisition of Dallas, they had a peak bookings quarter of approximately \$200 million. Of that, 50 million were bookings from their telecom business unit which today is only booking 9 million per quarter. But as you can see, netting out the difference, the division should be capable of realizing bookings above their current levels.

Turns orders for the third quarter were \$165 million or 54% of net bookings, and we shipped approximately 72% of those terms. The high percentage of turns orders coupled with continued low cancellations tell us our customers are continuing to order for their immediate needs. There is no inventory build up with our distributors or customers. In fact, inventories at our distributors have gone down for the past several quarters.

Breaking out geographic revenue -- our revenue geographically, our bookings for the third quarter were: 35%, the United States, 36% in the Pac rim; 20% in Europe; and 9% in Japan, not changed from the previous quarter. Although most of you know, we don't provide a breakout of our bookings by end market. I would say the bookings for our power management business units which were more than one were collectively up 18% over the previous quarter and bookings for the wireless and wire line business units were up 25% and our standard products business units which are the broad broadest of all in the company were up 17%.

Despite continued U.S. unemployment, demand for Maxim products continues to grow. We attribute the growth to our success in new product markets, that it required three to four years to penetrate. This penetration of new markets is part of our long-term directions, most of you know, and we believe that we are on plan.

Bookings for or first four weeks of the fourth quarter are fairly encouraging and running approximately 13% ahead of where they were for the first four weeks of the last quarter, but we are not jumping to any conclusions based on four weeks of data which typically, you know, could not be representative of the quarter. But we don't have to sustain that right either to have a good fourth quarter. We currently plan for revenues to increase sequentially in this fourth quarter with a penny increase in earnings per share to 24 cents a share. But I'm going to wait -- we're going to wait until we are further into the fourth quarter to be more specific about revenue growth. Our current plan depends on our booking and shipping about \$110 million of turns orders during this quarter.

We would like to begin building backlog so we are not as dependant on turns as we have been in the past couple quarters, and we did some of that last quarter. We would like to go forward with that plan. Historically, Maxim's quarterly revenues have been derived from shipping less than 40% of its turns orders. As I commented earlier, last quarter we shipped over 70% of our turns orders.





Gross margins for the company overall were 69.9%, up slightly from the second quarter gross margin. The increases were due to product mix and manufacturing efficiencies we realized during the quarter. We very proud of the improvement of Dallas Semiconductors' gross margin over the past several quarters. And this quarter, Dallas Semiconductors' gross margin continued to increased about a half a percent to 63.2%. This is higher than almost all semiconductor companies. We have continued to make progress reducing on shore costs at Dallas. We have almost finished moving all of their end-of-line operations offshore to the Philippines. During this quarter, Dallas costs will continue to go down as a result of continued moves offshore, conversion to 8-inch wafers and improvements across the board in manufacturing yields.

Operating margins for the corporation were 39.2% of net revenues. As we have stated before, we are continuing to work toward our goal of achieving a below-the-line spending level of 25% of revenues. This will come primarily as a result of revenues increasing. Although R&D spending was down slightly in the third quarter, we did add 22 development engineers and plan to add another 25 development engineers in the quarter we are in. Generally speaking, we have not seen any real degradation in average selling price over -- and we attribute that almost entirely to the fact that our products are -- an overwhelming majority of our products are proprietary and owned by Maxim.

During the quarter, we generated \$11 million of cash after spending \$20 million to repurchase 650,000 shares of stock. By most standards, our consistent cash generation has been and continues to be very impressive. Based on our profitability and our outlook and our need for cash, the board has voted to increase the quarterly dividend from 2 cents a share to 4 cents a share as Carl pointed out.

During the quarter we introduced 436 engineering man-month of products in the quarter that ended April 26th, and this is compared to 427 engineering man-months of new products introduced during the quarter. Many of you know now that we are measuring our productivity, our product development efforts in terms of the man-months contained with a product, as it is a better account for the increase and variability in the product complexity.

New products continue to be extremely well accepted in this marketplace. This quarter, we had important design wins in the latest generation of notebook computers, in 02.11 wireless lands, cellular handsets, portable medical devices, high speed data networks, security equipment and other areas. Our fiber business unit is continuing to diversify their direction into high speed applications and they are also experiencing -- beginning to experience revenue increases in the -- primarily in the data com area.

Talking now about manufacturing, our conversion of processes to 8-inch wafers in our fabs in San Jose and Dallas are proceeding approximately on schedule. Dallas is behind a little bit but San Jose is on schedule. The conversion to 8-inch wafers at our San Jose fab is complete, and if demand allows, we will shutdown the 6-inch production over the next several quarters. At our Dallas fab, we are running qualification lots and planning to ramp 8-inch production over the next several quarters. While we are doing this, we are incurring approximately a million and a half dollars a quarter of R&D expense. We have over the last couple quarters and it will continue until the qualification is completed.

By end of fiscal 04 which would be beginning of -- well, beginning this quarter, a year from now, the company will be shipping 45% of its revenue on 8-inch wafers. Our three wafer fabs are running today at about 55% capacity. We currently have a capacity in place, equipment and facilities to ship over \$500 million dollars per quarter. We are shipping approximately 300 million per quarter. With additional equipment in our existing facilities, we could ship approximately \$1.2 billion per quarter. This increase -- these increases in output would obviously further reduce our manufacturing costs.

Although we had hoped to increase our inventory slightly in the third quarter, our inventories actually fell \$4.2 million. Our plan for the fourth quarter is to increase manufacturing output above third quarter levels to support our expected increase in demand. During the fourth quarter, we expect to purchase land in Thailand in which we will build a new end-of-line facility, but construction will begin this quarter and end by fiscal -- by the end of fiscal '04. At that time, we will be able to ship approximately half of our production from that facility. We currently ship about 28% of our product from a manufacturing facility that we in Thailand, that is on -- in a leased building.

Some one of you will probably ask something about SARS and its affect on Maxim. We have no fab or test facilities or manufacturing



facilities in China. Therefore, we are not going to be affected.

I would like to talk a bit about stock option expensing if you will allow me. In Maxim's view on the possibility of new regulations that could impact effectiveness of many technology companies and, therefore, the growth of our economy in the United States. We are opposed to the expensing of stock options and stock option expense regulations currently under review, and we are opposed on two fronts. First, it is bad accounting, pure and simple. Secondly, we strongly believe that if these regulations are put in place they could severely damage the U.S. leadership position over other countries regarding technology innovation.

The United States has attracted the best talent from all over the world because -- through options, shareholders have been able -- entrepreneurs and employers to share in the success of their companies. We are at risk of weakening the tremendous employee commitment that has successfully fueled our U.S. competitive advantage. The potential damaging long-term affect of our nation -- on our nation's economy and our lifestyle that would result from the force expensing of stock options should be taken very seriously.

Maxim has always obtained stockholder, shareholder approval for our employee stock options. And our shareholders have approved our plan each year for the last 20 years. They have approved our plan because the company has performed well for them as shareholders. And this partnership has been in place, you know, since almost the beginning of our company. We totally support making stockholder approval of stock option plans mandatory. We also strongly disagree with the effort being made to expense stock options. With that, I'll open the call to questions.

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## QUESTIONS AND ANSWERS

### Operator

Thank you. The question and answer session will be conducted electronically. If you would like to ask a question, please do so by pressing the star key followed by the digit 1 on your touch-tone telephone. If you are using a speaker phone, please make sure your mute function is turned off to allow your signal to reach our equipment. We'll proceed in the order that you signal us and we'll take as many questions as time permits. Once again, please press star 1 on your touch-tone telephone to ask a question. And we'll pause for just a moment to give everyone an opportunity to signal. We'll take the first question from Tore Svanberg with US Bancorp Piper Jaffray. Go ahead.

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### Tore Svanberg *US Bancorp Piper Jaffray*

Yes. Good afternoon. Jack, it looks like your terms that you are expecting for this quarter are significantly lower than last quarter. Anything behind that conservatism at this point?

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### John Gifford *Maxim Integrated Products - Chairman, President, CEO*

Yeah. I commented on that. Our company runs much better if we're only requiring to turn 30 or 40% of our available turns in on a given financial period. So we would like to not be having to turn 70% of what we book for turns or ship 70% of what we book for turns during the quarters. So that's -- to use your phrase that's kind of what's behind it.

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### Tore Svanberg *US Bancorp Piper Jaffray*

Very well. And 14% increase in bookings, can you talk a little about some of the areas of strength that drove that level?

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### John Gifford *Maxim Integrated Products - Chairman, President, CEO*

Yeah. We were -- we had strong bookings in virtually every -- every business area. I think 12 of our 14 business units had increases of over 10% quarter over quarter and I think 10 of them had increases of maybe as much as 20% quarter over quarter. I don't remember the number exactly. We only had one business unit that did not have increases, and that was the basically in the ATE area. But other than that, we saw growth everywhere. Fiber -- you know, I'm comfortable or I feel a lot better about their direction and they are beginning actually to have growth again.

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### Tore Svanberg *US Bancorp Piper Jaffray*

Okay. Very well. And finally, I think last quarter you indicated that about 15% of your wafers were silicon-germanium based. Is that primarily for own internal production or does some of that include foundry services as well?



**John Gifford Maxim Integrated Products - Chairman, President, CEO**

Yeah, there is a small amount for foundry services. But you're right, Tore. We do provide a service like TSMC, and like IBM. We have technologies others don't have. And we do offer it to our -- in customers to do designs with. But it is not a material number.

**Tore Svanberg US Bancorp Piper Jaffray**

Excellent. Thank you.

**Operator**

We'll go ahead and move on to Michael Masdea with Credit Suisse First Boston.

**Michael Masdea Credit Suisse First Boston**

Thanks. You said you would not give us specific items but gave us a terms number you were expecting in the quarter and you get -- that's your backlog. If you take a typical cancellation you get 7% growth. Is that the wrong conclusion to jump to?

**John Gifford Maxim Integrated Products - Chairman, President, CEO**

Well, Michael, thank you for your nice comment about the company, but I want to make sure based on your question I want to make sure I didn't confuse people. I said we needed to ship for turns 110 million. But like as you know or as you may know we did turn last quarter, and, in fact, for the last couple quarters we booked for turns over \$160 million or \$164 million last quarter which was a record quarter. I think we have to go back almost two years where we found a quarter where we booked for turns as much as we did last quarter. It was a very -- you know, it was a positive quarter. And my 110 million number was simply a number that if we, you know, that we are now looking at as a drop dead low number that we would need to turn to ship an acceptable number. I also commented that we don't have a revenue plan finalized yet for the quarter. We want to see how the quarter goes forward before we finalize that.

**Michael Masdea Credit Suisse First Boston**

That's fair. In terms of depreciation year coming off the 8-inch factories will that be material over the next few quarters? Should we model that in?

**John Gifford Maxim Integrated Products - Chairman, President, CEO**

It's in.

**Michael Masdea Credit Suisse First Boston**

It's in there?

**John Gifford Maxim Integrated Products - Chairman, President, CEO**

We will actually get a -- excuse me. Carl is collecting me.. There is a little increase. Maybe you want to comment on that?

**Carl Jasper Maxim Integrated Products - CFO, VP Finance**

Yeah. You are right. As equipment comes on board we will add equipment to the depreciation line, but it is not too material. Because have you older equipment falling off at the same time.

**John Gifford Maxim Integrated Products - Chairman, President, CEO**

I think the net result is not much -- whatever. If you need the number we'll give it to you. It is not a material number.

**Michael Masdea Credit Suisse First Boston**

Okay. Great.

**John Gifford Maxim Integrated Products - Chairman, President, CEO**

One thing that will come off. I mean, we're spending a million and a half for expense to qualities processes. So that will stop -- sometime during the year.



**Michael Masdea** *Credit Suisse First Boston*

Great. And the last question. When you take a look at your wireless situation, is there anything new to update us on on the Qualcomm situation and also we saw a weakness in CDMA in Korea where you had traction. Are you still gaining share over there and bucking the trend?

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**Carl Jasper** *Maxim Integrated Products - CFO, VP Finance*

No. We had a strong quarter in wireless. We have planned for material growth this year in wireless and in CDMA. So we have nothing to report about weaknesses or changes in our plan on CDMA.

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**Michael Masdea** *Credit Suisse First Boston*

And anything on the Qualcomm situation, any further correspondence?

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**John Gifford** *Maxim Integrated Products - Chairman, President, CEO*

None. No further correspondence. Our position has not changed.

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**Michael Masdea** *Credit Suisse First Boston*

Great. Thanks.

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**Operator**

And we'll move on to Ross Seymore with Deutsche Bank.

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**Ross Seymour** *Deutsche Bank*

Thank you. Congratulations with the strong bookings. We just had a question on the lead times. From Carl's comments it doesn't appear the lead times have moved out much. I wondered, Jack, what your view is on what it is going to take to get the lead times to move out especially when we're at about 55% utilization.

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**John Gifford** *Maxim Integrated Products - Chairman, President, CEO*

Well, lead times moving out is a negative issue. You know, they come about because customers place orders on you that you don't anticipate. You know, when your turns orders are as high as ours are now, people are very much in jeopardy of having lead time problems. Because on average our lead times haven't moved out. There have been areas where they clearly have because of these accelerated, unpredicted and unplanned booking levels.

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**Ross Seymour** *Deutsche Bank*

Okay. So you think that will be more the disruptions of the supply chain that will bring it up quicker than just an over all increase in demand these days?.

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**John Gifford** *Maxim Integrated Products - Chairman, President, CEO*

Well, it is the increase in demand that brings it up. It is the fact that customers are operate -- it is amplified by the fact that customers are number one, don't have as good a visibility in long term -- their changes -- change is in demand and demand changes occur to them -- occur on them -- occur to them, excuse me -- without a lot of visibility. So I believe as I commented last quarter, I think that's happening more often now than it has in the past. They aren't having to react and they can't see very far ahead and I think they are -- they are seeing increases and changes in demand, and I think the other thing that's maybe causing their -- the high level of turns that we're getting is that they, again, still are trying to not end up with obsolete inventory, and they want to control their inventory levels in their spending. But I think the two together do result in disruption and longer lead times, and I think you are going to see these disruptions. You know, they are occurring -- they are occurring now. You just don't see them in the overall numbers.



**Ross Seymour Deutsche Bank**

Okay. And One follow-up on the other side of your wireless business, the wireless land business. You have some good traction in the B market, specifically with your radio. And I wanted to see two things -- one, the pricing in that market, have you noticed material changes there? And the second point, with that market in general moving over to 802.11G in a little bit more volumes, do you have that in the road map and product to be introduced anytime soon?

**John Gifford Maxim Integrated Products - Chairman, President, CEO**

Yeah, I think -- as I have said before, anytime you sell products into a regulated product description, you can expect a blood bath. And we went into the business knowing we were going to have to be the low cost producer and we are. And it is not one of our high profit margin areas, but we obviously planned for that. So, you know, there has been price attrition which certainly we anticipated and are comfortable with, and the G business is one that we intend to be a leader in that particular 802.11 arena with regard to all the variety.

**Ross Seymour Deutsche Bank**

Okay. Great. Thank you very much.

**Operator**

And we'll move on to Louis Gerhardy with Morgan Stanley.

**Louis Gerhardy Morgan Stanley**

Good afternoon. Excuse me. Question on, Jack, last quarter you had spoken about lower bonuses and some salary freezes, and now that you have a little more visibility and backlog, any thoughts on, you know -- any thoughts on when you may reinstate some of the benefits and you had about 88 million in OpEx this quarter. How much could it go up, maybe in millions of dollars if you bring these back up?

**John Gifford Maxim Integrated Products - Chairman, President, CEO**

I don't know the answer to that question on this phone call.

**Louis Gerhardy Morgan Stanley**

Well, what about the timing of when you may bring back some of the benefits? Would you say you are a lot closer to that -- that event or --.

**Carl Jasper Maxim Integrated Products - CFO, VP Finance**

The answer is yes to that. I would expect that probably our first quarter -- I would expect that probably in our first quarter we will.

**Louis Gerhardy Morgan Stanley**

Tough to quantify how much that will be?

**Carl Jasper Maxim Integrated Products - CFO, VP Finance**

It will not -- I assure you it won't have any affect on our ability to produce financial results.

**Louis Gerhardy Morgan Stanley**

Okay. And then I also wanted to ask about the Dallas results. That was outstanding, the bookings performance. You explained for us last quarter why it underperformed, but could you give us more color on why it was so much better than core Maxim this quarter?

**John Gifford Maxim Integrated Products - Chairman, President, CEO**

I don't look at it as a negative toward Maxim. I think Dallas has the potential to do very well. We wouldn't have bought the company if we didn't see the potential in the people and the proprietary product lines and the technologies that are proprietary, and its breadth as I tried to point out. They actually had the potential to book a couple hundred million per quarter, and they have done that. I am disappointed-- we are all disappointed that they were hammered so badly during this downturn. But we're not surprised -- would not be surprised for them to do materially better than they are doing.



**Louis Gerhardy** *Morgan Stanley*

Would some of it catch up from the two business units that underperformed the prior quarter?

**John Gifford** *Maxim Integrated Products - Chairman, President, CEO*

That was -- like I pointed out, that was an aberration and it was not a strategic issue then or now.

**Louis Gerhardy** *Morgan Stanley*

And just in terms of your factory operations, sounds like you changed your plans in the quarter to step up production. Can you just give as you sense of the change in wafer moves? How much you increased your wafer turns or moves, I forget what you call it?

**John Gifford** *Maxim Integrated Products - Chairman, President, CEO*

We actually did not achieve our objective of increasing our moves to the level I reported we were going to try to do, you know, at the last conference call. We increased them and I don't have the numbers at my finger tips. Sorry about that. I can give them to you later. But we -- had we -- had we achieved the moves increase we planned on, we would not have built the -- we would not have reduced our inventories all of the \$4 million.

**Louis Gerhardy** *Morgan Stanley*

Do you have a number though in terms of how much you plan to increase it during a physician Cal fourth quarter?

**John Gifford** *Maxim Integrated Products - Chairman, President, CEO*

The fab moves?

**Louis Gerhardy** *Morgan Stanley*

Yeah.

**John Gifford** *Maxim Integrated Products - Chairman, President, CEO*

I have the number, but, you know, I'm going to be guessing if I try to remember it.

**Louis Gerhardy** *Morgan Stanley*

Okay.

**John Gifford** *Maxim Integrated Products - Chairman, President, CEO*

I don't have it in front of me. I'll have to give it to you off of this call. Okay?

**Louis Gerhardy** *Morgan Stanley*

Great. Thank you.

**John Gifford** *Maxim Integrated Products - Chairman, President, CEO*

Call me.

**Louis Gerhardy** *Morgan Stanley*

Thanks.

**Operator**

And we'll go ahead and move on to Joe To with Lehman Brothers.

**Joseph To** *Lehman Brothers*

Hi. Seems like the first four weeks of April sounded pretty good. Can you discuss the linearity you expect in the June quarter. Is it mostly front unloaded or back unloaded or pretty even?



**Carl Jasper *Maxim Integrated Products - CFO, VP Finance***

Hello, Joe. I have none. Whatever happens is going to happen. I have a long-term belief, but I can't tell you. I mean, you know, I think long-term we have a -- we think we know what the ship demand is for our product. We have a -- our business unit people have increased their ship demand projections or consumption projections for Q4 over what they were projecting four months ago. I mean, they are projecting consumption in excess of 320 million but --.

**Joseph To *Lehman Brothers***

Okay. Fair enough. Just, secondly, bookings in Japan, can you discuss what happened there? How come they were weaker than the rest of the geographies?.

**Carl Jasper *Maxim Integrated Products - CFO, VP Finance***

They really weren't -- what we reported in the press release is what we called bookings on Maxim which is the legal -- or the financial bookings, but the booking that is more accurate is the end market bookings. In other words, if you take the distributors out of the equation and look at what the customers bought from the distributors, actually Japan's bookings were up 5%. So I guess it's down from some of the other continental areas, but Japan overall for the year is on an up trend. -- up trend in bookings. And to answer your question, I don't know why the growth is less than some of the other areas.

**Joseph To *Lehman Brothers***

Thanks a lot. Congratulations.

**Carl Jasper *Maxim Integrated Products - CFO, VP Finance***

Thank you.

**Operator**

And we'll go ahead and move on to Brian Wu with Bear Stearns.

**Brian Wu *Bear Stearns & Company***

My first question, I was wondering if you could talk a little more about the gross margin impact of bringing your utilization into Q4?

**John Gifford *Maxim Integrated Products - Chairman, President, CEO***

As to whether or not gross margins will increase or in terms of what we report in Q4?

**Brian Wu *Bear Stearns & Company***

Yeah, is that a possibility?

**John Gifford *Maxim Integrated Products - Chairman, President, CEO***

I would expect that we may see -- we might see a couple of basis points or something, you know. It is a slow process but we're not -- you know, as we get toward 70 or 80% utilization, it would be a material number, and I think as Dallas gross margins continue to increase it will be material, but you are not going to see a material affect in Q4. You will see it maybe -- I mean, it will be flat to up slightly gross margins.

**Brian Wu *Bear Stearns & Company***

Okay. And follow-up, with you guys not giving sequential revenue guidance today, does that imply you might be holding a mid-quarter update sometime during this quarter?

**John Gifford *Maxim Integrated Products - Chairman, President, CEO***

It definitely implies that as soon as we know for sure what the revenue -- what we're going to ship, we will communicate it. We haven't yet. It is just too early in the quarter. And we had a big -- we have had two quarters of big booking screw-ups. We went from 260 million to -- 250 million to 270 million and now we're up to 308 million bookings. I want to see the slope of the line first. I want to see what happens this quarter before I write in stone some sort of a revenue number.





**Brian Wu *Bear Stearns & Company***

Okay. Thanks a lot.

**Operator**

And we'll go ahead and take the next question from Chris Caso with SoundView Technology Group.

**Christopher Caso *SoundView Technology Group***

On the fiber business, specifically the intercom market, you saw only a little improvement there. Is this something that's indicating that inventory levels are getting very low now and you are seeing a little bouncing off the bottom or is this reflective of real end market demand?

**John Gifford *Maxim Integrated Products - Chairman, President, CEO***

Actually it is more product oriented than macro economically oriented. I think relative to your point -- your question though. In the metro, the telecom segment, we are -- the inventory situation has been pretty well corrected, and I think there is some buying there, you know, of telecom-related fiber products. In the datacom area, you have a different scenario altogether. There never really has been an inventory problem. As you may know, the datacom market has -- the datacom products from a performance point of view have gotten very fast, and they really do need fiber connections on their back planes. And we have been, you know somewhat innovative in these areas, so our new products are enjoying some success in new equipments. That's really what we're seeing there. But I think it is a long-term positive trend and you will see the value of fiber products and the datacom market continue to increase.

**Christopher Caso *SoundView Technology Group***

Okay. Great. Just a follow-up. Maybe you can comment about the impact of Intel [Centrino] launch on your notebook revenues. I know have you a good share there. If you could talk about it perhaps in what you saw, you know, benefit from [Centrino] units and extra contents in [Centrino] during the quarter.

**John Gifford *Maxim Integrated Products - Chairman, President, CEO***

I mean, you are asking me a question about whether Intel sales -- notebook sales will increase because of the wireless connection, aren't you?

**Christopher Caso *SoundView Technology Group***

Well, maybe you could put it in terms of -- you know, what changes for Maxim as you go from P4 notebooks to [Centrino] notebooks in terms of maximum content. Maybe you can put it that way.

**John Gifford *Maxim Integrated Products - Chairman, President, CEO***

I don't think [Centrino] by itself, other than the radio helps our revenue cross-section in the notebook market. I think the notebook market -- we're gaining content because we're -- in the notebook, because we are doing a load of functions that we weren't doing. The [Centrino] idea is going to help our wireless product sales because all old and new notebooks are probably going to have a wireless connection, but I think probably we're going to get more benefit from the after-market sale of notebook -- of radios than -- you know, I guess I'm a little presumptuous here with to be commenting on what Intel has spent hundreds of millions of dollars to figure out, and that's whether or not a wireless notebook is going to increase the sales of -- the overall annual sales of notebooks. I would rather them answer that question than me. I don't build notebooks. My opinion and yours would be about equally weighted there.

**Christopher Caso *SoundView Technology Group***

Okay. Sure. Safe to say as far as your content and perhaps some increase due to wireless content but --

**John Gifford *Maxim Integrated Products - Chairman, President, CEO***

I think, clearly, it will increase. But this is not because of [Centrino]. We believe that the notebook is a more useful tool if it is wireless connected. People have been selling notebooks with slots for wireless cars for well over a year. And I think, you know, if you take a look at the install base of notebook, they are all a potential to be made wireless, right?





**Christopher Caso** *SoundView Technology Group*

Sure. Sure.

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**John Gifford** *Maxim Integrated Products - Chairman, President, CEO*

And so that's got to help sales of radios and people who make components that go into radios should benefit from that.

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**Christopher Caso** *SoundView Technology Group*

Okay. Thank you.

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**Operator**

And we'll go ahead and move on to David Wu with Wedbush Morgan Securities.

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**Brian Wu** *Bear Stearns & Company*

Yes, good afternoon. A great quarter in bookings. Jack, Carl earlier was talking about, I think I put down end market's bookings were up 5% quarter to quarter in Q3.

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**John Gifford** *Maxim Integrated Products - Chairman, President, CEO*

Yeah, he was speaking of Japan. In our press release we said that our bookings were up in all markets except Japan. They were down which is accurate also, but that included -- those were our distributor orders on Maxim for Japan. But if you look at customers in Japan big Maxim products for our distributors they were up. But the Japanese distributors didn't order from us.

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**Brian Wu** *Bear Stearns & Company*

I see. Okay.

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**John Gifford** *Maxim Integrated Products - Chairman, President, CEO*

We wanted to clarify that because -- for the reasons you are asking, actually.

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**Brian Wu** *Bear Stearns & Company*

Jack, the -- we have been in these environment so long, I was wondering whether its going back to the original Maxim model where you only ship 40% of the turns orders you get. Is viable until you have much higher operating rates. I know you like to have visibility.

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**John Gifford** *Maxim Integrated Products - Chairman, President, CEO*

We will go to 70% to 40% in one quarter. I agree with you. That is not realistic. But clearly a Maxim would run -- I mean, we're going to operate better if we can move that number down as reasonably as we can.

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**Brian Wu** *Bear Stearns & Company*

Uh-huh. Jack, based on what you see out there --

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**John Gifford** *Maxim Integrated Products - Chairman, President, CEO*

let me make one more comment on that, David. It would not be in our best interest to create delinquencies in order to do it. We're not going to do something stupid.

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**Brian Wu** *Bear Stearns & Company*

Okay. Jack, if you look at your total end markets, if ten of your 14 business units have bookings north of 10%, other than those two business units of Dallas in the past -- making up past strengths, would you say that the breadth of your recovery of your bookings right now leads to you to suspect maybe the -- your customers are more optimistic than what they are telling investors in the conference calls? I would think the bookings are more realistic -- it's like their expectation of the June quarter as opposed to what they officially guide to the street.

**John Gifford Maxim Integrated Products - Chairman, President, CEO**

I think we are in the early quarters of seeing some healthy growth. I think their being conservative is probably -- I think they are being reasonable. I don't think they are euphoric. You have to remember that what you're probably seeing now, and as a general statement, is you're probably seeing business as normal. I mean, inventories have been depleted and what you are seeing now is true consumption. I think you are also seeing companies change pecking orders, places on the pecking order list by having to do with which companies have got their products designed into the new generations of -- well, a theoretical example, I don't want to you run back and say Jack said we're dominating SISCO, but to use SISCO as an example, SISCO's new generation equipment may have a higher percentage of Maxim products than the old generation. The pecking order's changed. That's truly a theoretical example. But that can cause some companies to have growth in -- with just normal -- you know, normal market growth now which I think is still embryonic. But maybe you will see some of that. But I would not -- you know, unemployment is high. We still have got -- I mean, consumer confidence has to get -- has to improve. When that starts to happen you will see more growth, but I think you will see companies that have higher growth rates than others primarily because their new products have shown up and have gotten into the new generation of equipments and other company's products haven't.

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**Brian Wu Bear Stearns & Company**

Okay. Thank you.

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**Operator**

Okay we'll take the next question from Jeff Rosenberg with William Blair. Please go ahead.

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**Jeffrey Rosenberg CFA William Blair & Company**

First off, we talked a couple quarters ago about the issue of new products designed in and that we're tracking according to your metrics there's not going to market on schedule, and that being an issue as to why business was not ramping as much as you expected it to. As you see things improve, can you talk about how much that's improving and if that was a big issue helping you?

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**John Gifford Maxim Integrated Products - Chairman, President, CEO**

I think there is no doubt we are benefitting from things we did three years ago. We have gotten ourselves into equipment we weren't in, and we have had a big jump -- I think we have had about a 20% jump compounded -- and I may be wrong on this number, but it is in the ballpark of 20% over the last three years, increase in engineering man-months introduced. Largely, as a result of, -- we acquired a lot of man-months from Dallas. We had a huge influx of engineering effort. We've been able to invest over the last -- in the last 2 1/2 years. It has to help. It can't hurt. I think that's a fair assessment.

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**Jeffrey Rosenberg CFA William Blair & Company**

And so you think companies are getting a little more comfortable and confident and bringing new products to market that perhaps you had gotten designs awhile back, you have seen a change in trend there where there is more optimism;

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**John Gifford Maxim Integrated Products - Chairman, President, CEO**

If you let time pass by -- I have 30 years experience in this business. If you have a period where people are burning off inventory or equipment sales have slowed down -- you can be in a design -- you can be in a generation of equipment and never sell anything. When business starts up again, your customer is starting to ship a new generation of product and you are out of it. So you can miss a family of products, can miss a whole generation if there is no demand for your product at the time. They don't just sit there with the old design for four years, you know, waiting -- they design a new generation. I don't know if I made myself clear.

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**Jeffrey Rosenberg CFA William Blair & Company**

No. I understand. And yet you feel like you've gotten designed into the next generation and that hasn't affected your overall long-term growth expectation as you see a product cycle skipped, so to speak.

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**John Gifford Maxim Integrated Products - Chairman, President, CEO**

Well, I think people are going to miss a major portions of a product cycle, yeah, I really do. I think enough time has gone by, what, two years? I think there will be some of that, for sure.



**Jeffrey Rosenberg CFA William Blair & Company**

But when you look out at your '07 plan, that's -- that sort of metric doesn't pull that back in at all? It doesn't affect that?

**John Gifford Maxim Integrated Products - Chairman, President, CEO**

I mean, I may be an optimist and obviously I am biased, but I think we will benefit from that.

**Jeffrey Rosenberg CFA William Blair & Company**

Okay. And the last thing, when -- now that you are reporting man-months, I don't know if we can get an occasional update on what the man-month per product looks like so we can get a gauge on how many products you are put out there.

**John Gifford Maxim Integrated Products - Chairman, President, CEO**

Sure, you can. I would rather do it without tying everybody up here, -- okay. But price per product is increasing. Complexities are increasing. I tried to allude to that. We have this huge inventory of man-months lost and then waiting to announce. So it is not a real nice smooth number. But I would be happy to -- I mean, relative to our long-range plan and generally that being on track, we feel we are on plan. Relative to the products we needed to announce and launch and what we have launched and announced.

**Jeffrey Rosenberg CFA William Blair & Company**

Okay. Thanks.

**Operator**

And we'll go ahead and move to Clark Westmont with Smith Barney.

**Clark Westmont Smith Barney**

Hello. Just wonder if you could tell me -- you did say that the end market bookings in Japan were up 5% quarter on quarter, could you tell us for the entire company for all your regions what the end market bookings did quarter over quarter?

**John Gifford Maxim Integrated Products - Chairman, President, CEO**

Yeah. We can. Let me just see if I can get to it. Okay. Quarter over quarter -- Carl, catch me if I get one of these wrong. The U.S. is up 8%, right?

**Carl Jasper Maxim Integrated Products - CFO, VP Finance**

9%.

**John Gifford Maxim Integrated Products - Chairman, President, CEO**

9%. Oh, I've got the wrong end market book, is that right? What is that?

**Carl Jasper Maxim Integrated Products - CFO, VP Finance**

Dollars.

**John Gifford Maxim Integrated Products - Chairman, President, CEO**

Oh, that's dollars. Okay. The U.S. is up 9%, Europe up 16, Japan is 5, Pac rim is 12.

**Clark Westmont Smith Barney**

Great. And you did say that end market consumption for the June quarter you thought would be north of 320. So any --

**John Gifford Maxim Integrated Products - Chairman, President, CEO**

Yeah, I said our business units have -- I have to interrupt, I didn't get to finish my sentence. I said our business units, you know, have demonstrated a more optimistic view of consumption. Their projections for the fourth quarter consumption of our product is up from what they projected, you know, a quarter ago and they are projecting currently it is over -- it is over 320 million, and if you go back, you know, a quarter, a little longer than a quarter and they were projecting something in the neighborhood of 300 million. So they are more optimistic now than four months ago.



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**Clark Westmont Smith Barney**

Okay. And the delta between say that number, if it does materialize in the end market, and whatever you report as revenue would be as if you report a revenue number below that it would be burning off inventories in distribution, or am I leaving another piece out of that?

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**John Gifford Maxim Integrated Products - Chairman, President, CEO**

That's an altruistic number. I don't know what a good use of the word is. That's a consumption number of that one I gave you, the one north of 320. They believe that's what is going into equipment.

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**Clark Westmont Smith Barney**

Right. So, what you ship out the door and recognize as revenue, the delta between those two numbers would be a burn off in distributors inventories.

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**John Gifford Maxim Integrated Products - Chairman, President, CEO**

Inventory -- in general inventory. Distributors' inventories or their own inventory.

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**Clark Westmont Smith Barney**

Got it. Thanks a lot.

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**Operator**

And we'll take the next question from [Casey INAUDIBLE] with Semiequity Capital. Go ahead.

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**Casey [INAUDIBLE] Semiequity Capital**

I have a question on the third quarter. Can you give us an idea, you know, where these turns are coming from. Is this across geographical areas, business lines?

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**John Gifford Maxim Integrated Products - Chairman, President, CEO**

That is a good question. That's a great question, and I'm going to find that out. I don't know the answer to that. I will analyze that. I would tell you if I knew. I hadn't even thought to look at that. We should.

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**Casey [INAUDIBLE] Semiequity Capital**

Another question is on the management business. Do you see a lot of competition from Tiawanese, and can you comment on your gross margin going forward in this business?

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**John Gifford Maxim Integrated Products - Chairman, President, CEO**

Power management, it is a very broad field. I mean, if you looked at LTC, they call -- I mean, they sell mostly power management but they break it into-- they call their communications business -- they call our power management business in communications, communications. It is wherever you are selling a power supply related product, that kind of equipment. You know, that's what that is. And we -- I would say that we're, you know, we're having -- we're doing well in that area, we're penetrating new markets and we're doing more than holding our own in the existing markets. I mean, there are some businesses -- account by account, we could be losing designs, but overall we are gaining market share and power management.

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**Casey [INAUDIBLE] Semiequity Capital**

What about in the desk top?

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**John Gifford Maxim Integrated Products - Chairman, President, CEO**

We're not in the desk top at all. That's the one area we are not in.

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**Casey [INAUDIBLE] Semiequity Capital**

And what about notebook?

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**John Gifford Maxim Integrated Products - Chairman, President, CEO**

We are big in notebook and we have -- we have between 50 and 70% of the markets, you know for -- you know for -- well, for the products we have, I mean, we have large market shares in, you know, in each -- for each of the products. There are maybe as many as seven different segments of about -- in a notebook.

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**Casey [INAUDIBLE] Semiequity Capital**

Okay.

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**John Gifford Maxim Integrated Products - Chairman, President, CEO**

But I could be wrong in that number 7 too. So don't hold me to that. And I do know that we have lost market share in one area, but we gained market share in several others. I know overall we have gained market share.

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**Casey [INAUDIBLE] Semiequity Capital**

Okay. Good quarter, guys. Thank you.

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**Operator**

And we'll go ahead and move on to David Einhorn with Greenlight Capital. Please go ahead.

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**David Einhorn Greenlight Capital**

Thank you. Is the -- if the debate related to the stock option does not go how you are worried about, would you stop issuing stock options and turn to more -- other forms of compensation or would you continue on with the stock options and suffer an earnings penalty?

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**John Gifford Maxim Integrated Products - Chairman, President, CEO**

You know, -- that's a good question. I would -- stock options got us here. I would be a fool to change our corporate business strategy. I believe what's going on is a political witch hunt. I believe it is illogical. I am going to completely ignore it. We are going to run our company as our shareholders have told us to. And as we do, we're going to continue to issue stock options. Maxim generates -- we basically could go -- do a pro forma cash accounting and you couldn't tell the difference. I mean, when we make \$100 million of profit you could look in the box and find a \$100 million in cash in Maxim. Regardless of what they do, we're going to continue to issue stock options and we're going to report both our -- if we're required to report expensing options we're going to do that, and we'll report pro forma cash accounting. I'm confident that fund managers and people who manage money will -- they have already concluded that for them to determine how a company is doing they will have to look at the cash accounting and subtract out all these other ridiculous things. So, long answer to your question, but it won't change how we operate a bit.

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**David Einhorn Greenlight Capital**

So then, I don't understand the -- if you are not worried about the earnings impact and the stock price impact from the options, what exactly then do you see as the threat to the nation's economy lifestyle?

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**John Gifford Maxim Integrated Products - Chairman, President, CEO**

If other companies are panics by this, and don't have the wisdom, the experience and they do short sheet their employees, and what caused them to grow, and they underestimate, you know, how important that commitment on the part of the company is to their employees are, what that will do to them. I am not worried about Maxim one bit. I think it can hurt the country terribly and it can level the playing field which Europe would love to have happen if companies have a knee jerk reaction. And try to run to a drummer that doesn't make any sense. It is more senseless in my opinion than companies trying to run their business in order to accomodate analysts -- quarterly report and estimations of what you are going to do quarter to quarter. If you run your company trying to do that you can't run it well either. And we will not change how we run our company, and I hope others won't either. My editorial had to do with trying to sound a bell for them to not -- to ignore these also, but we're going to ignore it.

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**David Einhorn Greenlight Capital**

Great. Thanks so much.



**Operator**

And we'll go ahead and move on to Krishna Shankar with JNP Securities.

**Krishna Shankar JNP Securities**

Yes, with the bookings trend that you observed in wireless catalog and power management, can you describe for us this trend in new product bookings versus cyclical recovery of your older products which were designed more than two years ago?

**John Gifford Maxim Integrated Products - Chairman, President, CEO**

I'm sorry, would you start that over?

**Krishna Shankar JNP Securities**

I want to get a strength of the booking strength and newer products versus, you know, quote, unquote, old products, to what extent are we recovering bookings for all the products versus a products design in the last two years?

**John Gifford Maxim Integrated Products - Chairman, President, CEO**

Well, you know, it is impossible to answer that question. Obviously, our new products have to succeed our older ones in new markets or we can't meet our plan. Our plans are dependant on that. I mean our older products atrophy out over a five to eight year period. The answer is -- the general answer to your general question is our new products are succeeding them and penetrating new -- not only new designs, but new markets and we have a plan that does require that to happen.

**Krishna Shankar JNP Securities**

Okay. Thank you.

**Operator**

We'll go ahead and move on to Parish Maneer with Premier Financial.

**Parish Maneer Premier Financial**

Given that bookings with the 14% quarter over quarter, why did shipments stay flat? -- stay flat quarter over quarter?

**John Gifford Maxim Integrated Products - Chairman, President, CEO**

Which quarter? The quarter we were just in, just finished?

**Parish Maneer Premier Financial**

Yeah, the one we just finished, the December quarter.

**John Gifford Maxim Integrated Products - Chairman, President, CEO**

Well, would you have to take -- we had to ship 70% of our turns in order to do that, so does that answer your question?

**Parish Maneer Premier Financial**

Was it a conscious choice made by the management not to increase shipments?.

**John Gifford Maxim Integrated Products - Chairman, President, CEO**

I think those of with you operational experience will realize that it is very difficult to be trying to ship more than 70% of what you turn or 80%. It is chaos, so you don't want to be in a position where you are having to react to turns much higher than that. So obviously it was a conscious management decision, yeah.

**Parish Maneer Premier Financial**

Okay. That's what I wanted to know. And it wasn't a matter of not having the right mix, it was a matter of conscience, management position.



**John Gifford Maxim Integrated Products - Chairman, President, CEO**

Well, it is a combination of things. There was a segment of turns we couldn't ship because the orders came in, you know, out of mix. I mean, there is some of that too. But I think -- we feel good that -- you know, we planned to ship 70% of our turns and we shipped 70% of our turns and I think we're more comfortable shipping a lower percentage of turns.

**Parish Maneer Premier Financial**

Thank you.

**Operator**

And we'll move on to Tom Thornhill with UBS Warburg.

**Tom Thornhill UBS Warburg**

The question related to integrated products versus building block products. Are you seeing stronger growth on some of the integrated solutions?

**John Gifford Maxim Integrated Products - Chairman, President, CEO**

You will have to explain to me what you mean.

**Tom Thornhill UBS Warburg**

Multiple -- products where you are putting, say, DC to DC convertors in [INAUDIBLE] perhaps, and on a single substrate, or multiple LDLs on a single substrate versus the the traditional analog building products.

**John Gifford Maxim Integrated Products - Chairman, President, CEO**

Okay. You mean an analog being like it is an amplifier or comparator or reference, a single function, is that what you are talking about? Both being monolithic

**Tom Thornhill UBS Warburg**

That's correct. I'm asking if we're seeing more growth in the more integrated products.

**John Gifford Maxim Integrated Products - Chairman, President, CEO**

Yeah, I think somebody asked a question similar to that a few quarters ago. They were surprised by the answer. But, we -- yeah, at Maxim, we call ourselves a mixed signal company. And that means a couple things. It means, number one, a large percentage of the -- of the electronics on a -- on our microchips is actually digital. Probably on average I would say that maybe 60% of the content of any -- on average of a Maxim product is digital. As far as having multiple functions that are either digital or analog, I would say that somewhere in the neighborhood of final 95% of our products, our revenues come from product that's have -- that are what you called multiple functions, you know, integrated where they are doing, you know, LDO's or combinations of microcontrollers and A to D converters. We have very little business that is pure analog.

**Tom Thornhill UBS Warburg**

Understood. Another company introduced a single-chip DSL product in the last few days integrating line drivers and power management into this, all -- the whole product into a single piece of silicon. Does this product threaten to change the demand for the power management functions or those sockets over time or is this a small event?

**John Gifford Maxim Integrated Products - Chairman, President, CEO**

No, I think it is a natural progression. I think that -- I don't know the product you are talking about, but in some -- that could make sense. I mean, it depends on the partitioning of the customer and whether the voltages ranges allow it and -- but, there are some things that don't make sense to integrate, but that could make good sense. I can't tell without knowing more.

**Tom Thornhill UBS Warburg**

Thank you.





**Operator**

And we'll go ahead and move on to Joe Osha with Merrill Lynch. Please go ahead.

**Matthew Chan Merrill Lynch**

Thank you. This is Matt Shan for Joe Osha. You mentioned you shipped 70% of your current orders last quarter. Is that what you typically ship of your turns orders?

**John Gifford Maxim Integrated Products - Chairman, President, CEO**

Not if I have a choice? No, I mean, historically if we go back through the many years, I think we average closer to 35% turns.

**Matthew Chan Merrill Lynch**

I'm sorry. I wasn't referring to turns business. You said you shipped 70% of -- of the turns orders that you got you only shipped 70% of that?

**John Gifford Maxim Integrated Products - Chairman, President, CEO**

Yes, that's what I just answered. What did -- yeah, I said historically we have not shipped probably more than 35% of the orders we have got for turns in a given quarter. 70% is one of the higher numbers we have shipped.

**Matthew Chan Merrill Lynch**

Right. Right. And going back to that 110 million figure you gave us earlier. It seems through listening to a couple earlier questions that that's really kind of your bottom line threshold, the minimum amount of turns you expect in this quarter. Am I interpreting that correctly?

**John Gifford Maxim Integrated Products - Chairman, President, CEO**

I can understand how I have confused you. That's a number that we would need to turn -- to ship for -- from our turns to meet a minimally acceptable number. I think that's what you just said, actually.

**Matthew Chan Merrill Lynch**

Okay. Great. That answers my question. Thanks for the bookings break down. I was wondering, I know you don't typically provide sales breakdowns, could you tell us what was your best performing business in terms of sales? And perhaps what the worst performing business in terms of sales in the just-ended March quarter was?

**John Gifford Maxim Integrated Products - Chairman, President, CEO**

The worst performing is the ATE business. A lot are doing well. Every business unit had bookings up. I don't want to pick any favorites. I'm obviously much more pleased this quarter than I was six months ago. But, yeah, I think things are on a definite uptick.

**Matthew Chan Merrill Lynch**

Finally, turning to gross margins, how much gross margin upside do you think we have here? We have a couple things happening and you are moving more to 8-inch manufacturing and you probably still have more room in the Dallas business for gross margin expansion. Perhaps, if you can offer a longer term outlook here?

**John Gifford Maxim Integrated Products - Chairman, President, CEO**

Well, our longer term outlook is in the low 60s over four or five years. We expect to be, you know, our gross margins will be in the low 60s. But, you know, in the short-term, we see nothing that's going to erode our margins, you know, below the current levels.

**Matthew Chan Merrill Lynch**

But do you see gross margins expanding further?

**John Gifford Maxim Integrated Products - Chairman, President, CEO**

Well, you know,, obviously they will when we get manufacturing efficiencies, but, you know, there is a blending going on because we are entering markets that have got great profit growth opportunities for us that to be in them you need to be comfortable with you know, 55% gross margins. We have a blending going on. It is not a parameter we use to run this company. People mostly understand that now.





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**Matthew Chan** *Merrill Lynch*

So, what I'm hearing is perhaps there is some upside due to manufacturing, but, over the long run, if you are going to grow revenues you have to enter new markets where have you to accept lower margins?.

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**John Gifford** *Maxim Integrated Products - Chairman, President, CEO*

We know if we're going to produce 30% gross in profits, gross in profits year over year after the long-term, you've got to grow revenues. And it is -- it is much -- it is a safer business strategy to grow revenues than to try and optimize gross margins.

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**Matthew Chan** *Merrill Lynch*

Okay. Thank you.

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**Operator**

We'll move on to Woody Calleri with Midwest Research.

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**Gregory Calleri** *Midwest Research*

Good afternoon, gentlemen. Jack, I have covered you guys for quite some time. You always have a forecast. You know what's going for the next four quarters. What is causing you the concern that's keeping you from giving guidance here, what specifically? Is it end market, inventory, is it SARS? Help me understand

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**John Gifford** *Maxim Integrated Products - Chairman, President, CEO*

This is your friend, Woody, right? Yeah, well, she always tells me about you. It is positive, actually. What keeps us from giving more guidance? I think I answered that already. I'm not comfortable right now. I would like to know more about our environment.

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**Gregory Calleri** *Midwest Research*

In what part of the environment? What specifically?

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**John Gifford** *Maxim Integrated Products - Chairman, President, CEO*

I would like to know -- I would like more time to pass. We're seeing, you know, changes in the environment, and I would like to watch it.

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**Gregory Calleri** *Midwest Research*

Okay. So, even though you got a good view and bookings are up, there is something out there that is still causing you some concern here.

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**John Gifford** *Maxim Integrated Products - Chairman, President, CEO*

Concern? No. I'm euphoric. I mean, I was -- no, I'm actually in one of my more euphoric moods. I'm not concerned. I mean, I don't want to put, you know, something down that I don't -- you know, that I don't feel like I need to do right now. It is not very important right now for me to guess at a number. I want to -- you know, I know we're going earn -- our bookings will be up and we'll earn more money than we did last quarter, and that's really all I what president to talk about right now. We don't have the backlog to say a lot more. I only have \$200 million in backlog shippable in the quarter. I mean, I'm really -- we're not where we want to be. We would much rather have a higher backlog in the next 90 days.

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**Gregory Calleri** *Midwest Research*

I understand.

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**John Gifford** *Maxim Integrated Products - Chairman, President, CEO*

And not to have to ship, you know --

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**Gregory Calleri** *Midwest Research*

but you have given guidance with less backlog in the past.

**John Gifford Maxim Integrated Products - Chairman, President, CEO**

Have I given guidance, not really. I really haven't. I have given minimum numbers which I have basically given here. I mean, I have given what I know we can do.

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**Gregory Calleri Midwest Research**

Okay. And you had talked about a little bit of weakness in your test business. Do you think that's just people burning through inventory, a pause here? Can you give us a little more color on that part of business?

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**John Gifford Maxim Integrated Products - Chairman, President, CEO**

The semiconductor equipment companies, wafer fab and test equipment just aren't getting orders, yet. There has to be -- I think the test equipment guys will start to get orders before the fab guys, but that could be imminent, frankly. Unit demand is up and you can't -- you know, you can't build the stuff without testing it. The problem is there was a lot of equipment sold -- you know, when everything peaked about two years ago. A lot of that equipment is useful. They are not selling equipment.

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**Gregory Calleri Midwest Research**

Okay. And then you talked about no inventory at your distributors or your end customers, but that's about as far as you can see. You wouldn't know stuff was building in finished goods?

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**John Gifford Maxim Integrated Products - Chairman, President, CEO**

No, I think I would.

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**Gregory Calleri Midwest Research**

So you believe everything is pretty clean out there, all the way through to the end customer. Being the consumer for PC's or cell phones or whatever?

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**John Gifford Maxim Integrated Products - Chairman, President, CEO**

Well, I'm sure there is some consumer product that is just -- the stuff is coming out the windows and it is over inventoried. Don't nail me to that cross.

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**Gregory Calleri Midwest Research**

I'm not trying to pin you down on one. I'm trying to get a sense of how far you can see.

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**John Gifford Maxim Integrated Products - Chairman, President, CEO**

Yes, I agree. I said that in the press release and I think I said it in my comments that we think the inventories are very healthy out there. Low.

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**Gregory Calleri Midwest Research**

Okay. Thank you for your time.

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**Operator**

And we'll go ahead and take the next question from Clark Fuseman with Fulcrum Partners. Go ahead.

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**Clark Fuseman Fulcrum Partners**

Hi, Jack. A little follow-up to go with Woody's question. In the upcoming quarter in terms of bookings, what sectors do you see as particularly strong and what sectors do you see as weaker?

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**John Gifford Maxim Integrated Products - Chairman, President, CEO**

We don't -- with four weeks gone by, we haven't analyzed -- I couldn't tell you where those bookings were coming from right now. But we don't pay a lot of attention to what's happened after four weeks other than the fact that if nothing, if we book nothing we get panicked. But so far the quarter is ahead of last quarter and if I -- and I -- our wireless -- I know qualitatively that -- where it is up and at least for



four -- in the early part of the quarter I mean, it is up and the wireless business is up, you know, over where it was last quarter. You know, the fiber use business is up and our notebook business is up over last quarter. I know those things. Our telecom business was up, but it was at such a terrible low, it is up, but up materially. These things don't mean a lot after four weeks. That's what I'm trying to tell you.

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**Clark Fuseman *Fulcrum Partners***

All right. On the \$100 million booking target from Dallas -- actually, one small one before that. You said that the end demand in your markets for the upcoming quarter was in excess of \$320 million. Do you think that's about where the bookings level is going to wind up, or do you think bookings will be up in the quarter, you know, or they are so far in the quarter, it is hard to judge, but do you think they will end up being up?

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**John Gifford *Maxim Integrated Products - Chairman, President, CEO***

Well, you know, remember this consumption number we have in infinite detail comes from human beings that live or die by trying to guess at what their customers are telling them, what's going to happen. And they have emotions and they go from pessimistic to optimistic. Like I tried to point out, they change their optimism from 300 million-dollar number four months ago to a number in excess of 320. A lot of it had to do with they were hearing more optimistic stuff. The people who project the bookings, this is a consumption booking number -- the people that project the bookings, they pick a number, you know, that's a little lower than the guy who projects the consumption, but still it is in the \$320 million range. One is 318 and one is 327. But remember, they are just groups of people that we add their projections up and it is affected by emotion. And optimism and pessimism. They talk to customers. They believe them, but they are biased by what happened the previous quarter?

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**Clark Fuseman *Fulcrum Partners***

Great. And specifically to Dallas on that \$100 million target on bookings, obviously you won't get there in one quarter. We would love to see it, but you're not going to get there.. What is your time horizon on that? Is it that over the course of the next the four quarters or something sooner than that?

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**John Gifford *Maxim Integrated Products - Chairman, President, CEO***

I would -- yeah, I think -- I just don't know. We don't have -- I will tell you this: We do not have demand projections for them to be over a 100 million in the next quarter. That's not there. I didn't mean to imply that.

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**Clark Fuseman *Fulcrum Partners***

No. No. No. You didn't.

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**John Gifford *Maxim Integrated Products - Chairman, President, CEO***

The potential is clearly there for them to book over a 100 million. It could happen later. I just can't tell you right now.

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**Clark Fuseman *Fulcrum Partners***

Great.

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**John Gifford *Maxim Integrated Products - Chairman, President, CEO***

We have new businesses there that will help us when they kick in. And one is this microcontroller business. But I didn't mean to imply that next quarter we will book 100 million in Dallas.

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**Clark Fuseman *Fulcrum Partners***

No, you didn't do that. but thanks for that. The one -- one little housekeeping question, modeling question. What do you expect out backs to do in the fourth quarter? flatish? down a little? up a little?

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**John Gifford *Maxim Integrated Products - Chairman, President, CEO***

What parameter? Which one?

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**Clark Fuseman *Fulcrum Partners***

Operating expenses.

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**John Gifford Maxim Integrated Products - Chairman, President, CEO**

Below the line? Is that what you mean, below the line expenses?.

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**Clark Fuseman Fulcrum Partners**

Yeah. R&B, SG&A.

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**John Gifford Maxim Integrated Products - Chairman, President, CEO**

We will add 25 or 30 people. We're going to basically increase operating expenses as we grow revenues, but with the control that our primary objective is to try and get in some -- as we grow revenue to get that as a percentage of sales, you know, closer -- closer to 25%. It will be controlled. It will go up maybe a million dollars. I'm really guessing. I mean, it won't be flat. But it won't -- it will not certainly track revenue growth.

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**Clark Fuseman Fulcrum Partners**

Great. So up a little is the operative word here.

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**John Gifford Maxim Integrated Products - Chairman, President, CEO**

Yeah. We remember -- remember, we have enough people -- enough technical people in place which we have had for over two years to execute our long-range plan. We're not having to manipulate it to grow into it -- to hire people to grow into it anyway, frankly, but we are not on a treadmill to need those people. That was a result of the 380 -- or 280 product development people we acquired with Dallas. So that's actually -- you know, that put us in a comfortable position. We would like -- you know, as I have said, we believe our below-the-line expense of percentage of sales is too high right now. But we need to grow into it. But we have been able to benefit by having these people and having that expense for the last two years. We got something for it. So it has been a good investment, but it hasn't made our numbers as nice as we would like them to have. But we're going to get the benefit of having that 35% below-the-line spending we have had for the last two years.

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**Clark Fuseman Fulcrum Partners**

Great. Thanks.

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**Operator**

And we'll go ahead and take a follow-up question from Tore Svanberg. Go ahead.

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**Tore Svanberg US Bancorp Piper Jaffray**

I don't mean to be smart here, but you have given us gross margin guidance, opening expenses and an EPS, and just running that through my model it looks like I get a revenue of 300 to 305. Am I completely off here?

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**John Gifford Maxim Integrated Products - Chairman, President, CEO**

Tore, I really can't. I don't want to comment on your model. I just don't want to do that.

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**Tore Svanberg US Bancorp Piper Jaffray**

A second follow-up. What is your current bookings run rate?

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**John Gifford Maxim Integrated Products - Chairman, President, CEO**

Sorry, what?

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**Tore Svanberg US Bancorp Piper Jaffray**

Your current bookings run rate?

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**John Gifford Maxim Integrated Products - Chairman, President, CEO**

What is that? I'm not sure I know your question. What do you mean by current bookings run rate?



**Tore Svanberg** *US Bancorp Piper Jaffray*

Where you stand today, what is the run rate?

**John Gifford** *Maxim Integrated Products - Chairman, President, CEO*

What have we booked to date?

**Tore Svanberg** *US Bancorp Piper Jaffray*

Your run rate for the next 90 days?

**John Gifford** *Maxim Integrated Products - Chairman, President, CEO*

Well, -- if we -- you mean if you take a linear extrapolation of what we've booked to date?

**Tore Svanberg** *US Bancorp Piper Jaffray*

Yes, exactly.

**John Gifford** *Maxim Integrated Products - Chairman, President, CEO*

You can do that as well as I can. About \$330 million.

**Tore Svanberg** *US Bancorp Piper Jaffray*

Great. Thank you.

**Operator**

And there are no further questions at this time. We'll turn the conference back over to you.

**John Gifford** *Maxim Integrated Products - Chairman, President, CEO*

Thank you, operator. This does conclude Maxim's conference call. We want to thank you for your continued participation and interest in Maxim. Thank you.

**Operator**

And that concludes today's conference. We thank you for your participation.

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# PLACEHOLDER TRANSCRIPT

Q4 2003 Maxim Integrated Products Earnings Conference Call

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**John Gifford** *Maxim Integrated Products - Chairman, President, CEO*

## CONFERENCE CALL PARTICIPANTS

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**Rick Schafer** *CIBC World Market*  
**David Wu** *Wedbush Morgan Securities*  
**Ross Seymore** *Deutsche Bank Securities, Inc.*  
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**Jeffrey Rosenberg** *William Blair & Company, LLC*

## PRESENTATION

### Operator

Good day and welcome to the Maxim Integrated Products fourth quarter, 2003, earnings release conference call. Just a reminder, today's conference is being recorded. At this time for opening remarks and introductions, I would like to turn the conference over to Mr. Carl Jasper, Vice President of Finance and Chief Financial Officer for Maxim Integrated Products. Mr. Jasper, please go ahead, sir.

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### Carl Jasper *Maxim Integrated Products - VP of Finance, CFO*

Thank you, operator. And again, I would like to welcome you all to our fourth quarter earnings release conference call for Maxim Integrated Products. On the call today from the company are Mr. Jack Gifford, our Chairman, President, and Chief Executive Officer, Amanda La Sar, our Managing Director of Corporate Policy and Communications, Alan Hale, Vice President and Chief Financial Officer of Dallas Semiconductor, and, again, myself, Carl Jasper, Vice President of Finance and Chief Financial Officer.

There are a couple of administrative items I would like to take care of before we cover the quarterly results and answer your questions. First of all, we will be making forward-looking statements on this call, and in light of the Private Securities Litigation Reform Act, I would like to remind you that statements we make about the future, including our intentions or expectations or predictions of the future, including but not limited to possible statements regarding bookings and turns orders, revenues and earnings, inventory and spending levels, manufacturing efficiencies or capacity, projected end market consumption of our product, and any other future financial results are forward-looking statements. If we use words like anticipate, believe, plan, project, forecast or estimate, or variations of these words, and similar expressions relating to the future, they are intended to identify forward-looking statements. It is important to note that the company's actual results could differ materially from those projected in the forward-looking statements.

Additionally, information about risks and uncertainties associated with the company's business are contained in the company's SEC filings on Form 10-K for the year ended June 29, 2002. Copies can be obtained from the company or the SEC. Secondly, in keeping with the SEC's fair disclosure requirements, we have made time available for your questions and answers. This will be your opportunity to ask questions of management concerning the quarterly results and expectations for the next quarter. An operator will provide instructions at that time.

At this point, I will hand the call over to Mr. Jack Gifford for his comments.

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**John Gifford Maxim Integrated Products - Chairman, President, CEO**

Thanks, Carl.

We will begin, as usual, with some prepared remarks and then take whatever questions you would like to ask and provide you our best answers. The fourth quarter bookings were up approximately \$5 million from the last quarter, and for the year, our bookings for the corporation were up 11% year-over-year. For Maxim without Dallas, our bookings were up 15% year-over-year, and Dallas's bookings without Maxim included were flat year-over-year. We do expect Dallas bookings to improve over the next few quarters. Turns orders for the fourth quarter were approximately 161 million, or 51% of our net bookings, and turns orders continue to be high relative to historical levels, which indicate to us that our customers are still ordering for their immediate needs. Turns orders have been about half of our bookings since the beginning of fiscal '02 when our bookings were at their lowest level.

Inventories remained low at both our customers and our distributors worldwide. The geographic break-out of our bookings for fourth quarter were 34% in the United States, 37% in the Pac Rim, 20% in Europe, and 9% in Japan. And year-over-year, the growth came 9% from the U.S., 12% in the Pac Rim, Europe was up 10%, and Japan bookings were up 15%. Although we don't break out comprehensively our bookings by product market, I will tell you that we would highlight that this last quarter our business unit, or, excuse me, our data convertor business unit had increased bookings of 23% over the previous quarter, and our wireless and our wire line telecom business units, communications business units, bookings were up 22% quarter-over-quarter.

Bookings for this current quarter, Q1, are going according to plan, in fact. We are through the first six weeks booking at a pace of approximately \$350 million for the quarter. Our ship demand projections from our business units say that consumption -- projected consumption, will be in the neighborhood of about \$330 million. Based on that, we currently plan to ship net revenues, or report net revenues of \$310 million for this quarter and increase our earnings by a penny a share to 25 cents a share. There could be some up-side depending upon our bookings this quarter. But as I mentioned last quarter, we would like to continue to build backlog so that we're not so dependent on turns.

Gross margins for the company were 70%, in Q4 which is approximately the same as in Q3. But during the fiscal year, our gross margins have increased, and particularly Dallas's gross margins have increased 6.3%, from 59.9% in the fourth quarter of fiscal '02 to 66.2% in the fourth quarter of fiscal '03. This is a result of -- primarily of improved margins due to moving manufacturing offshore, the increased productivity at our wafer fab and individual product yield improvement, as well as some contribution from the profitability of the new products that have been introduced over the last two years.

Operating margins for the corporation also improved throughout the year from 34.4% a year ago to 40.1% this last quarter. Impressively, Dallas Semiconductor operating margins improved from 26.3% a year ago to 30.7% in the fourth quarter of this year. Operating margins for Maxim without Dallas improved from 37.6 % to 43.2% for the same period.

Our R&D spending for the fourth quarter was 67.2 million compared to 66.8 million. SG&A spending levels were fundamentally flat on a dollar basis quarter-over-quarter, and in balance, our below the line spending decreased to 29.9% of net revenues for the fourth quarter, with Dallas below the line spending at 35.6% of our net revenues and Maxim, without Dallas, at 28% of our net revenues. And we're continuing to work, and our goal is to achieve a 25% of sales below the line spending. And that's going to be the resultant of primarily increased revenue growth.

We increased our cash in short-term investment by \$107 million during the quarter after we spent 47 million to repurchase 1.3 million shares of our stock, and we spent 28 million for equipment. As we mentioned in our June 4th press release, our Board of Directors has extended the current authorization to repurchase shares from the end of fiscal '03 to the end of fiscal '04. Also, Maxim's Board of Directors has made a decision regarding quarterly dividends based on the company's profitability, cash position, and business outlook.

Our Board performs regular detailed reviews of the company's cash requirements, the effectiveness of our investment policies, our long-term profit projections, and our outlook balanced against our desire to return value back to our shareholders. For background, during the most recent year, Maxim generated approximately \$400 million in cash, increasing our cash by approximately 50% over the





previous year. And our current dividend distribution rate was approximately \$52 million. As a result of this review, and our results, the Board has voted to increase the quarterly dividend from 4 cents a share to 8 cents a share per quarter. And while the board will -- our board will continue to review our dividend distribution on an ongoing basis, we don't want to create an expectation that we will increase our dividend every quarter. It's our intention to adjust the dividend amount as the environment for our cash needs evolve. We believe that the current dividend amount can conservatively be supported, as I hope the numbers I gave you demonstrate.

We introduced a 480 [enduring] man months of products in the fourth quarter ending in July compared to 435 [enduring] man months in the third quarter. As you know, man months, we believe, are a more accurate description of our productivity since the product complexities vary greatly in -- and number of product does not give an accurate description. Also, it is more -- as more complex products are put into the development pipeline, which take longer to develop, we end up building a larger whip of man-months, or work-in-process of man-months that are not yet announced. So I would expect, you know, the numbers to stabilize in the next couple of years, but right now we are on a slope.

Dallas Semiconductors' capabilities in the microcontroller design area have made us one of the few companies in the industry with capability to put high-speed and high-performance analog and digital computing on the same microchip for specific applications, and things like power meters and smart batteries and things like that, and we believe that the demand for these smart microcircuits will increase significantly over the next several years. Our new products continue to be well accepted in the marketplace.

With regard to manufacturing, our conversion of those processes to 8-inch wafers continue at our fabs in San Jose and Dallas. Our 8-inch Dallas fab is starting production now, and they will ramp and complete that conversion throughout this year. By the end of the year, fiscal '04, we expect to be shipping over 45% of our production from 8-inch wafers. We also plan, following that, to begin conversion of our Beaverton, Oregon fab to 8-inch wafers. Although we did hope to increase our inventories last quarter, we did not do that. We are going to continue on that tack of trying to grow inventories.

I think last quarter our inventories actually went down about 2.5 million from the previous quarter, and actually, which I think is a positive thing, is that for the year, our inventories dropped \$18 million, or they were reduced by 13% while our revenues increased by about that same amount. Our inventory turns, obviously, therefore, have improved throughout the year.

During last quarter we finalized the purchase of land in Thailand, in which we're going to build an end-of-line manufacturing facility that will mirror-image the facility in Cavite, and we expect to have that completed within a year, and it will produce -- designed to produce half of our end-of-line manufacturing. Looking back over the last two years, it's been very challenging for all of us, you and me, and it's been very competitive, and we'll remember that, and, you know, there will be a few companies that emerge in our industry as the definitive leaders as a result of this purging.

These leaders are going to be companies that have had strong analog and have strong analog and digital design capabilities. They have in-house wafer fab processes and packaging technology. They have very low-cost manufacturing. They have the ability to anticipate these rapidly changing and growing markets in the consumer and automotive and computer areas. And these companies are very good at defining products accurately for these markets. We believe that Maxim is one of the few, very few companies combining these strategic strengths.

And as we've predicted in the past, these fabless semiconductor companies and start-ups are finding it very difficult to survive and offer technical innovation at cost-effective prices for our customers. We believe this trend is going to continue, and that Maxim will continue to play an increasingly important role as a major electronic equipment manufacturer and a major semiconductor manufacturer, and we think that equipment manufacturers and our customers are going to seek out even more companies like Maxim who are proven suppliers that can provide technical innovation, reliability, and low cost.

And in closing, I will just say that I think we're very well positioned for a future that's bright. And with that, I will open the conference to questions.

**Operator**

Thank you.

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**John Gifford *Maxim Integrated Products - Chairman, President, CEO***

Operator, could you provide instructions for our audience and poll for questions.

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**QUESTIONS AND ANSWERS**

**Operator**

Yes, sir. If you would like to ask a question, you may do so by pressing the star key followed by the digit 1. We will proceed in the order you signal us and take as many questions as time permits. If you are using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our system. Once again, that is star 1 to ask a question, and we'll pause for just a moment to assemble the roster. We will take our first question from Michael Masdea with CS First Boston.

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**Michael Masdea *Credit Suisse First Boston***

Couple quick questions on the orders front. Can you tell us what percentage of your turns that you got in the quarter you actually shipped and how cancellations came in?

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**John Gifford *Maxim Integrated Products - Chairman, President, CEO***

Yeah, I can, Michael. Give me one second. I have to look that up. Yeah, we shipped 112 million -- 70% of what we booked, we turned. Of what we booked for turns, we shipped. [INAUDIBLE] We booked 161 million of turns. What was your other question?

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**Michael Masdea *Credit Suisse First Boston***

The cancellations.

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**John Gifford *Maxim Integrated Products - Chairman, President, CEO***

Yeah, they were overall \$6 million. That's up very slightly from last quarter. The last four quarters, the cancellations have been 7 million. Going to Q1 of '03, 7 million, 7.8 million, down to 6.2 million.

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**Michael Masdea *Credit Suisse First Boston***

If we take a look at the last seven quarters seems like you guys have had about 30-40 million in turns that you haven't been shipping. Is the way to think about it as that continues, until you see a real uptick in demand, you feel a lot more confident about your customers giving you more visibility, and we have sustainable upturn, should we expect to see that kind of number just continue and continue to build backlog?

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**Carl Jasper *Maxim Integrated Products - VP of Finance, CFO***

I think so, because I think there's a component of turns that -- they're shippable, but they're really not shippable, either, because they're coming in, in the last month of the quarter, and unless you just have inventory there, you are not going to be able to ship those. So there's some realistic level if you could ship that. But that -- we're much more -- actually, we're still shipping a higher percentage of turns that we historically have. So that could even -- the percentage could go down from where it is.

---

**Michael Masdea *Credit Suisse First Boston***

All right. In the last quarter it seemed like Dallas had quite a recovery in orders. This quarter orders overall were only up 2%. What you said on orders so far, that 350 number you were tracking towards assumes something like around 10% order growth next quarter. What's driving that order growth next quarter, and is that the right way to think about it?

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**Carl Jasper *Maxim Integrated Products - VP of Finance, CFO***

Well, I'm not -- what's driving it are the notebook markets. All of the markets were up. I could tell you where we're -- where our business units are projecting growth. Hang on a minute. Our business -- the ship demand, or the demand for our products, the consumption is



being projected at 200 -- \$330 million. Maybe I shouldn't be giving you guys updates for five or six quarters, because I'm not trying to imply that's what we're going to book. I'm just telling you that's the rate of the first five or six quarters. Our business units, they say that the consumption this quarter will be, you know, \$330 million, but they will book according to that consumption level.

But let me, if I can find it here, let me see if I can give you where we -- what areas we're looking to see. Do you have the Q1 ship demand? Here it is. We expect it to be up in notebook, in our systems interface products, our wireless products, our data converter area, basically our industrial mixed-signal analog circuits, both at Dallas and Maxim, we expect our battery management circuits we expect to be up, and our telecommunications circuit business, we expect to be up this quarter. We expect, of the 14 business units, seven of them are projecting growth up in Q1. Four of them are flat, and three are projecting demand slightly down from the previous quarter.

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**Michael Masdea** *Credit Suisse First Boston*

And the way to think about the difference between that consumption number and what you're posting up there is just continuing to not necessarily be able to hit all your turns and building some backlog?

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**Carl Jasper** *Maxim Integrated Products - VP of Finance, CFO*

Well, no, people buy, you know, depending on their need to have inventory or not have inventory. I mean, what ultimately tells you what they end up consuming -- I mean, what we look at is what are they consuming, what's going on in the boards, what's going into equipment? What they order don't -- almost never equal to what they're consuming. They're either reducing inventories or increasing inventories. So I'm not even -- if we booked 350 million for the quarter, our business units still believe that the consumption level is 330 million.

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**Michael Masdea** *Credit Suisse First Boston*

Great. That makes sense. Thanks a lot.

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**Operator**

Moving on, we hear from Rick Schafer with CIBC.

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**Rick Schafer** *CIBC World Market*

Hi, thanks, guys. Just a couple of questions. Back on Dallas for a second. I'm just trying to think of what your target is for profitability long term, and what the time horizon is there. You certainly have seen a nice growth in profitability there over the last say four or five quarters. And then, you know, I guess also, you just highlight the expectations for sales growth in that business over the next 12 months.

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**John Gifford** *Maxim Integrated Products - Chairman, President, CEO*

Well, we expect both Dallas and Maxim to grow, you know, over 20% in the next 12 months. And Dallas could grow faster than that, maybe as much as 30, but that's our plan, or our projections, based on our knowledge of the economy, our belief in where the economy is, and where our products are designed into equipment tell us that we should have bookings and growth in that ballpark for both companies.

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**Rick Schafer** *CIBC World Market*

Is there any reason that the profitability of Dallas wouldn't be able to get up to corporate average over time?

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**John Gifford** *Maxim Integrated Products - Chairman, President, CEO*

No, it should get to -- we're running it and making new product decisions with the same criterion that we make at Maxim, so we will [INAUDIBLE] approach that.

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**Rick Schafer** *CIBC World Market*

Okay, then --

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**Carl Jasper** *Maxim Integrated Products - VP of Finance, CFO*

We have the Dallas cost structure -- I mean, Dallas's cost structure now is very similar to Maxim's, so they have low cost, so now it's a question of just the products and the newer products coming in at higher gross margins than some of the traditional old ones.

**Rick Schafer CIBC World Market**

Okay. And then just a quick question on notebook and PC and kind of the trends you guys are seeing there going into the second half of the year. If you could just give us a little more color on that.

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**John Gifford Maxim Integrated Products - Chairman, President, CEO**

Well, we're projecting significant growth in notebooks in the next months, and I think one of the factors that you're probably aware of is that these low-cost notebooks that have been introduced by Dell and HP have been very, very successful, are taking market share away from the desktops, so we think that's a strategic trend that I think was underanticipated or estimated by maybe you guys, but it's happening.

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**Rick Schafer CIBC World Market**

All right. Well, thanks.

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**Operator**

Moving on, we hear from David Wu with Wedbush Morgan Securities.

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**David Wu Wedbush Morgan Securities**

Good afternoon, Jack. Can you do me a favor? On the last conference call, I remember that, you know, four weeks into the quarter, the growth rate was about 13% at that rate relative to the prior period, and, obviously, somehow the momentum dropped off towards the end of the quarter as we got into the June quarter. Again, right now, looks pretty good. What happened last quarter, and why won't it happen again this quarter?

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**John Gifford Maxim Integrated Products - Chairman, President, CEO**

It very well probably will. I mean, maybe that's just the nature of buying. Maybe everybody buys at the beginning of the quarter, and then they slow down. I think that's possible. You're right, I mean, that could be the way the buying habits occur.

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**David Wu Wedbush Morgan Securities**

Well, did the Dallas business grow at all last quarter? Bookings.

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**John Gifford Maxim Integrated Products - Chairman, President, CEO**

I don't think so. Hang on a minute. No, I think Dallas bookings -- hang on one second. No, Dallas bookings did not grow last quarter. They were flat.

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**David Wu Wedbush Morgan Securities**

So the Maxim bookings did grow.

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**John Gifford Maxim Integrated Products - Chairman, President, CEO**

Yeah.

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**David Wu Wedbush Morgan Securities**

The Dallas -- if I look at the last several quarters, Jack, the Dallas bookings kind of pretty volatile, either they grew double digit or didn't grow at all. Is there any pattern to it?

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**John Gifford Maxim Integrated Products - Chairman, President, CEO**

No, I don't think -- I think Dallas -- we're very comfortable with Dallas's growth plan, and we think we understand -- I mean, it's all based on new products and being in projects. And there's no -- we're dealing with a consolidation, which was significant, much more significant than Maxim, because they had a large percentage of their business in the telecom market, and they had a huge amount of inventory and distribution. But all in all, you know, Dallas has been slower to consolidate and get to a baseline where all of the excesses are out of the system. But other than that -- and, again, they did have a large commitment to the telecom market which they had to digest, or we had to digest. We think their growth prospects are very similar to Maxim's.

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**David Wu Wedbush Morgan Securities**

Based on your description of the seven business units that are going to grow in Q1, I assume that also implies Dallas would grow along with Maxim's historic business.

**Carl Jasper Maxim Integrated Products - VP of Finance, CFO**

I think of the seven, let me see if I can find that again, -- okay. Yeah, on the Dallas business units, of the six Dallas business units, three of them are going to grow, two are showing slightly -- actually showing -- one is no growth. Two are no growth, and one of them is down 5%. So that's the split on that.

**John Gifford Maxim Integrated Products - Chairman, President, CEO**

But quarter-to-quarter is not very meaningful. I mean, things happen. You have to really look at a longer term than quarter to the quarter, which I've said forever. But you don't pay much attention to quarter-to-quarter things.

**David Wu Wedbush Morgan Securities**

Okay. But the outlook for this coming up quarter sounds like a good number of the Dallas business units should be growing.

**John Gifford Maxim Integrated Products - Chairman, President, CEO**

Well, like I said, I mean, you know, we expect to grow from -- we expect to because -- we think consumption is about 330 million, and that's up quite a bit from the consumption levels of last quarter. So, yeah, we're -- we're digging out. This economy is growing now, and Maxim is growing. Dallas is no different than Maxim. I mean, I break them out simply so you guys can continue to see, you know, how the acquisition is being managed, and how it's doing, but I'm not breaking them out because they're different. There's not -- they basically are not serving different markets. I think that the company is very much like Maxim.

**David Wu Wedbush Morgan Securities**

Okay. Fantastic. Thank you.

**Operator**

Moving on, we hear from Ross Seymore with Deutsche Bank.

**Ross Seymore Deutsche Bank Securities, Inc.**

Thanks, Jack. You mentioned about the data converter and the wireless, wire line strength in bookings in the quarter. With those up 23-odd percent quarterly and the total bookings being up only about 2%, there must have been some segments that weren't quite so positive. Can you go through a little bit of those, please?

**John Gifford Maxim Integrated Products - Chairman, President, CEO**

I think I separated out -- I think I gave you Maxim's bookings and then Dallas's. I said Maxim was up, and Dallas was not. And so we had no bookings growth in Dallas last quarter.

**Ross Seymore Deutsche Bank Securities, Inc.**

Okay. But either by end market or by product, was there something that offset the strength in the data converter side of the business?

**John Gifford Maxim Integrated Products - Chairman, President, CEO**

Nothing relevant, really. There was no equipment area that was down.

**Ross Seymore Deutsche Bank Securities, Inc.**

Okay. And then I believe recently you've eliminated some salary freezes. I was wondering what that is going to mean going forward with the operating expenses, how we should go about modeling that. It has an effect of approximately 5% increase in our salaries for the year. I think in below-the-line spending it amounts to maybe a half million dollars a quarter increase. For each of those categories or just split evenly between the two?



**John Gifford Maxim Integrated Products - Chairman, President, CEO**

I'm sorry, what do you mean?

**Ross Seymore Deutsche Bank Securities, Inc.**

R&D and SG&A.

**John Gifford Maxim Integrated Products - Chairman, President, CEO**

Let me put it this way: It's insignificant; it's irrelevant. Not going to make any difference.

**Ross Seymore Deutsche Bank Securities, Inc.**

Gotcha. One end market question about the notebook market. There's been a bit more competition there.

**John Gifford Maxim Integrated Products - Chairman, President, CEO**

Can I just -- I didn't intend to dismiss that question. I mean, it is -- we think that the combination of bonuses and salary that we're reinstating will have an effect of about \$20 million of pre-tax profit for the year on us, which is incorporated in our plan.

**Ross Seymore Deutsche Bank Securities, Inc.**

Okay. Fair enough. Then over to the notebook side of things: You seem to be growing quite well in there, and you discuss that the booking strength, that bodes well for the unit side of things. Is the pricing side more competitive than in the past, less competitive, or just about the same?

**John Gifford Maxim Integrated Products - Chairman, President, CEO**

It's the same. It's not a -- there's not a margin problem in our businesses, so if you get bookings, the margins are usually fine.

**Ross Seymore Deutsche Bank Securities, Inc.**

Then the final question is: What sort of target levels should we think of with inventory? You said you wanted to try to increase it a little bit this quarter. Should we think about it as an absolute dollar, as a turns level that you're shooting for?

**John Gifford Maxim Integrated Products - Chairman, President, CEO**

No, we're trying to build a die bank. We're trying to increase our unfinished product inventory, and it really will come about, or needs to come about by getting the 8-inch wafer capacity up. And so I would probably maybe -- maybe I shouldn't have even brought that up, because I think if we do increase inventories, it's going to be small, a million, maybe \$2 million, if we can. We'd like to. We'd like to increase inventories probably \$10 million this year, but I don't think -- we're not going to make much progress on it probably this quarter.

**Ross Seymore Deutsche Bank Securities, Inc.**

Okay. Great. Thank you.

**Operator**

Moving on, we hear from Chris Caso with SoundView Tech Group.

**Christopher Caso SoundView Technology Group**

Good afternoon. Wonder if you could give some more color on the bookings growth and wireless and wire line. I think you said that was up 22% sequentially. Was that fairly broad-based, or any particular areas that you'd highlight from that?

**John Gifford Maxim Integrated Products - Chairman, President, CEO**

The telecom -- the traditional telecom bookings, or business, is up slightly. There's some growth there. From, you know, basically the metro and the short haul, and there is a need for equipment there, so I'm sure you're seeing that from other telecom companies. Our fiber business is growing, you know, at a pretty good rate now. It was destroyed, but it's coming back now, and it's back to about half of the level it was at its peak. That's both telecom and datacom related. Then our wireless, you know, the cell, you know, the handset business is doing well, as well as the wireless land business. Those are the areas.



**Christopher Caso** *SoundView Technology Group*

Maybe you can comment on some others during the quarter that talked about some inventory build in handsets during the quarter. Is that something that you guys saw? Was it significant for you guys?

**John Gifford** *Maxim Integrated Products - Chairman, President, CEO*

No. You mean on the part of our customers?

**Christopher Caso** *SoundView Technology Group*

That's right.

**John Gifford** *Maxim Integrated Products - Chairman, President, CEO*

No.

**Christopher Caso** *SoundView Technology Group*

Okay. And just following on, onto your comments on building inventory, where do you stand with wafer starts now? I think you said you were looking at building wafer starts in the first quarter of the year, increasing those. Are you going to increase them again in an attempt to build inventory?

**John Gifford** *Maxim Integrated Products - Chairman, President, CEO*

We increased them last quarter, but we didn't end up building much inventory. We'll increase them another 10% this quarter.

**Christopher Caso** *SoundView Technology Group*

And you increased them 10% last quarter, also?

**John Gifford** *Maxim Integrated Products - Chairman, President, CEO*

No, I don't know the actual number. I don't know if it was 10%. It probably wasn't, but we're trying to grow them, you know, 10% a quarter.

**Christopher Caso** *SoundView Technology Group*

Okay. Thanks.

**Operator**

We now hear from Joe Osha with Merrill Lynch.

**Joseph Osha** *Merrill Lynch*

Hi. Yeah, Jack, on the notebook business, in particular voltage core and also some of the battery management stuff, seems like there's been an awful lot of competitive entry there. When I talk to other companies, they say that you're fighting, and you're not interested in pulling back. Can you talk about what the pricing environment is like there, and whether you might end up maybe pulling back a bit from that business if companies continue to chase it so hard?

**John Gifford** *Maxim Integrated Products - Chairman, President, CEO*

I'm embarrassed because I'm not aware of what you're talking about. I don't have -- I don't have that understanding. I mean, I don't know about what you're talking about.

**Joseph Osha** *Merrill Lynch*

I am being told -- obviously, you're very, very competitive, and especially the voltage core for notebooks, and that's been a great business for you, but lots of companies out there chasing it. Just wondering if it is an environment where pricing is of some concern or not.

**John Gifford** *Maxim Integrated Products - Chairman, President, CEO*

Well, I think pricing, I mean, sure. You're not a player if you're not a low-cost producer in that market. We -- my editorial there in my prepared statements were trying to allude to that. A lot of the people that get into some of these markets, you know, using foundries or





-- are typically not low-cost producers. They get their head handed to them. I mean, you've got to be able to be the low-cost producer, but we are that, and so we're not -- we don't really -- we didn't get into this business to get out. We didn't get in not knowing what the costs were. But on balance, the notebook market is a good market. I mean, there are a dozen microchips that an analog company supplies, at least, in the notebook, but most of them are not very -- there isn't a lot of competition.

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**Joseph Osha Merrill Lynch**

Okay. That answers my question. Then, just a sort of straight old, simple question. What's utilization, or maybe a better way of putting it, given your existing fab base, how much revenue do you think you could support at this point without building more?

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**John Gifford Maxim Integrated Products - Chairman, President, CEO**

We bought the equipment, and almost all of the equipment, probably might have to spend another 50, 60 million, but we can produce just under a half billion dollars a quarter with what we've got now at Dallas and at [INAUDIBLE] in Santa Fe and in Beaverton, a quarter. So I'd say 480, 490 million, something like that.

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**Joseph Osha Merrill Lynch**

Let's hope for that 330 million this quarter.

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**John Gifford Maxim Integrated Products - Chairman, President, CEO**

I think that you're going to see growth this year from us and other companies.

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**Joseph Osha Merrill Lynch**

Okay. Thank you, Jack.

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**Operator**

Moving on we hear from Clark Westmont with Smith Barney.

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**Clark Westmont Salomon Smith Barney**

Hi. Two things, or maybe more. Let's see. As far as the 20 million dollar comment you made as far as your increase in op ex, or As far as the \$20 million comment you made as far as your increase in op ex or your pretax profit impact for your increase spending on salaries, or did I understand that? Could you just clarify what the \$20 million reference was to for your fiscal year pretax?

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**Carl Jasper Maxim Integrated Products - VP of Finance, CFO**

Our plan -- that -- our spending will increase -- our salary spending will increase \$20 million due to reviews which are roughly 5% of salaries, and then our bonus program, which is, you know, can be as much as -- well, it probably averages about 10% of salaries.

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**Clark Westmont Salomon Smith Barney**

So we're talking about fiscal year '04 over year '03 will be \$20 million higher? Yeah. Okay. I've got a basic math question that I'm struggling with. So the three-month backlog starting the quarter was 196 million. You shipped out of your turns orders 112, which would give me 308, and then you you had 6 million in cancellations. So why aren't revenues 302?

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**Carl Jasper Maxim Integrated Products - VP of Finance, CFO**

Well, there's adjustments of -- we have to -- the gross shipments we don't get to report.

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**Clark Westmont Salomon Smith Barney**

So there's reserves against possible profit return?

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**Carl Jasper Maxim Integrated Products - VP of Finance, CFO**

There's 8 or 9 million of adjustments, which are things like -- do you have that -- I've got it somewhere here. If you want me to read it to you, I can tell you. There's always an adjustment of gross revenues to net, and in our case it runs 8 or 9 million.





**Clark Westmont Salomon Smith Barney**

And is that sort of a typical number?

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**Carl Jasper Maxim Integrated Products - VP of Finance, CFO**

Yeah.

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**Clark Westmont Salomon Smith Barney**

Maybe I can just get the specific definitions off-line, but that's basically what I was getting at. Last thing, a small thing, last quarter conference call you didn't give any specific revenue guidance. This quarter you are. Do we read anything into that, or -- just wanted to ask.

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**Carl Jasper Maxim Integrated Products - VP of Finance, CFO**

I'm sorry, just give me the detail. I'm sorry, ask me one more time. I was trying to find the answer to your other question.

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**Clark Westmont Salomon Smith Barney**

No, I appreciate your looking. As far as the revenue guidance for the quarter, you were pretty specific as opposed to three month ago where I don't think there was any revenue guidance given this. Should we read anything into that, or is that just -- were you sick of all the phone calls you were getting last quarter for wanting a business update?

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**Carl Jasper Maxim Integrated Products - VP of Finance, CFO**

No, I just didn't know, you know, as well then as I know now that -- I mean, knew I could do a penny a share. I thought I might be able to do two or -- and I thought maybe I could get -- the bookings would get better, so I thought I would wait and see for awhile. And I could have done that again, I guess, but, you know, like I said, we might do better if our bookings are better. I said that in this call also, except I gave you a number.

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**Clark Westmont Salomon Smith Barney**

Right.

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**Carl Jasper Maxim Integrated Products - VP of Finance, CFO**

I mean, the answer is there's no difference. I just used a different set of words.

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**Clark Westmont Salomon Smith Barney**

Okay, fair enough. Thanks a lot.

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**Carl Jasper Maxim Integrated Products - VP of Finance, CFO**

Let me give you the -- while you're there, I will give you the answer to the other question, because I think others probably have -- that was a good question. Others probably have tried to figure that out, too. In Q4, the quarter that just ended, we had \$12.5 million of adjustments, and in Q3 we had nine, and in Q1 it will be about 12. The categories, the things that we end up adjusting, have to subtract from gross revenues, there's a thing called ship and debit where we ship -- or we book from our -- and ship our distributors at a price that they buy at, and then we let them resell sometimes at a price below their list, so we have to credit back -- give them credit, and the adjustment runs anywhere from \$8 to \$9 million a quarter -- called ship and debit adjustments. That adjusts between the gross net revenue and the gross revenue.

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**Clark Westmont Salomon Smith Barney**

Yep.



**Carl Jasper *Maxim Integrated Products - VP of Finance, CFO***

Returns run about a million dollars. Actually, returns run more than that, Returns will run like between a million and two million, for various reasons. I mean, maybe a customer has inventory and he wants to give it back to us, or maybe it's a product we've recalled. Things like that, you know. There's a bunch of items, but they're just, you know, things like that, that you have to adjust, you have to adjust from your gross revenue.

**Clark Westmont *Salomon Smith Barney***

Appreciate it. Thanks.

**Operator**

Moving on we hear from Joseph To with Lehman Brothers.

**Joseph To *Lehman Brothers***

Hi. Thanks a lot. Jack, could you go into the geographical break-out a little bit more? Looks like Japan was up a little a little bit more than it was last quarter. Any specific improvement there?

**John Gifford *Maxim Integrated Products - Chairman, President, CEO***

Not really. I think the year-over-year numbers are more telling than any quarter-to-quarter thing. I think Japan still is struggling in the throes of a recession, if that's what you want to call it. Manufacturing is leaving both the U.S. and Japan going into Taiwan and China. So a lot of purchasing is occurring, you know, in the Pac Rim. Europe is fundamentally starting to behave normally again, but the size of the European market was inflated by the telecom boom that went on in every country over there, so now that's stabilized, but it's down a lot from where it was at its peak. I think the most -- I mean, the thing you walk away with that's relevant is probably only that the Pac Rim is now reporting a lot of the revenue growth for all the companies, not necessarily because they are that productive, it's that the manufacturing for phones and notebooks are pretty much occurs in the Pac Rim and in China. So you're seeing those products being bought for over there and then shipped, exported throughout the world, brought back and shipped.

**Joseph To *Lehman Brothers***

Fair enough. One housekeeping question. You mentioned that you wanted to transfer -- or you wanted to have something like 40% of your wafer starts at 8-inch by the end of next fiscal year. How much of your starts now are at 8-inch? Is anything being produced?

**John Gifford *Maxim Integrated Products - Chairman, President, CEO***

I said 45%, and I think -- let's see here. I can't remember. I think we're producing about 25 to 30% of ours on 8-inch now.

**Joseph To *Lehman Brothers***

Great. Thanks a lot.

**Operator**

We will now hear from Louis Gerhardy with Morgan Stanley.

**Louis Gerhardy *Morgan Stanley***

Good afternoon. Quick question and a follow-up, if I could. Jack, could you just let us know what percent of your total revenue with Dallas in the fourth fiscal quarter, and then in the third fiscal quarter?

**John Gifford *Maxim Integrated Products - Chairman, President, CEO***

Third and fourth fiscal quarter? Yeah, hang on a minute. Dallas revenue in the third quarter was 68 million. In the fourth quarter it was 72 million.

**Louis Gerhardy *Morgan Stanley***

Your operating margin performance sequentially was just phenomenal going from 24 to 31% with revenues up in the mid-single digit. What else was going on at Dallas? Was there a mix issue, or was there --.

**John Gifford Maxim Integrated Products - Chairman, President, CEO**

Well, Dallas is just running very well. Their manufacturing yields are up. We've got all the off-shore -- onshore stuff, off-shore. The individual product yields are good. Their new products are -- like I said all along, they've got a lot of new products. We've put a lot into the market, and they're all very proprietary. They don't suffer much competition at all. So we've done -- I mean that's contributing a high margin. So the gross margins, you know, went up 6% year-over-year, and that's huge, you know. So that's what's happening. We're not -- the below-the-line spending is still out of whack. It's 35% of sales below the line. So we're working to get that number down. We want that number to be down in the 26, 27% area, which it will get to.

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**Louis Gerhardy Morgan Stanley**

Was that gross margin improvement you mentioned year-over-year or sequentially? I think the press release suggests the operating margin improvement was a sequential improvement.

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**John Gifford Maxim Integrated Products - Chairman, President, CEO**

I was talking about gross margin. I better check. The Dallas gross margin, yeah, they went -- that was a year-over-year number. I hope I gave you year-over-year. I meant that it was year-over-year. The quarter-to-quarter was only 1%, or half a percent.

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**Louis Gerhardy Morgan Stanley**

So the leverage sequentially came from the operating expenses then?

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**John Gifford Maxim Integrated Products - Chairman, President, CEO**

You said gross margin, right? No, I'm sorry. Wait a minute. Hang on a minute. Carl is pointing something out to me. What am I looking at here? Gross margin? Hang on a minute. I've got two conflicting reports here. The Dallas gross margin, yeah, they went -- they were 65.7% in Q3 and 6.4% in Q4. The year-over-year improvement is what we talked about when I talked about earlier, right? I'll go back.

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**Carl Jasper Maxim Integrated Products - VP of Finance, CFO**

We did year-over-year, 6.3 percentage points for Dallas.

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**John Gifford Maxim Integrated Products - Chairman, President, CEO**

Louis, did you get --

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**Louis Gerhardy Morgan Stanley**

I'm just looking at the press release. It says operating margin for Dallas improved from 24% in the third quarter to 30.7% in the fourth quarter.

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**John Gifford Maxim Integrated Products - Chairman, President, CEO**

Operating margins. I was talking gross margins.

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**Louis Gerhardy Morgan Stanley**

I see.

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**John Gifford Maxim Integrated Products - Chairman, President, CEO**

Okay. The operating margins, you know, did go from 24.4 to 30.7. I thought you said gross margin. No. And that came about, you know, primarily because we've been able to reduce below the line spending.

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**Louis Gerhardy Morgan Stanley**

Okay. Very good. Thanks.

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**Operator**

Okay. We will now here from Brian Wu with Bear Stearns.



**Brian Wu Bear, Stearns & Company**

Yeah, just a follow up question on the revenue capacity. Does that factor in the transition to 8-inch, or is that as you are running right now, the 480 to 490 million in revenue per quarter?

**John Gifford Maxim Integrated Products - Chairman, President, CEO**

That assumes that we'll be -- this conversion to 8-inch will have occurred with the equipment we've got in place.

**Brian Wu Bear, Stearns & Company**

I think you said you were going to spend another 50 to 60 million. Is that all for 8-inch equipment?

**John Gifford Maxim Integrated Products - Chairman, President, CEO**

Yeah, it would be.

**Brian Wu Bear, Stearns & Company**

Would the total cap ex, I guess -- the last couple of years you've been spending between 80 and 90 million. Would it be about the same, or would you expect that to go up?

**John Gifford Maxim Integrated Products - Chairman, President, CEO**

I think, you know, it's a moving target, but it's in the 100 million area -- 80 to 100 million is where it would be for the year.

**Brian Wu Bear, Stearns & Company**

Okay. Thank you very much.

**Operator**

We will now hear from Tore Svanberg with Piper Jaffray.

**Tore Svanberg U.S. Bancorp Piper Jaffrey, Inc.**

Good afternoon. Jack, turns have been running about 50% for awhile. When do you expect that to start turning below 50%?

**John Gifford Maxim Integrated Products - Chairman, President, CEO**

When bookings increase.

**Tore Svanberg U.S. Bancorp Piper Jaffrey, Inc.**

Do you think we could see that as early as this calendar year?

**John Gifford Maxim Integrated Products - Chairman, President, CEO**

Oh, I think we expect bookings to increase, you know, this next quarter. I think turns will flatten out at about 160 million. That's my opinion. I mean, I'm guessing. My feeling is that you won't -- turns won't continue to grow but bookings will.

**Tore Svanberg U.S. Bancorp Piper Jaffrey, Inc.**

Okay. Very well. And also looking at the high-speed microcontrollers coming out of the Dallas division, are these products targeted at new applications, or are we also looking at some potential replacement technology here?

**John Gifford Maxim Integrated Products - Chairman, President, CEO**

They're mostly targeted at new applications. They're targeted -- they're very application-specific. They're doing things that weren't being done before by a microcontroller or a microcontroller-based, smart microchip. There's an evolution going on right now in equipment where a lot of functions now can be done intelligently, and that were not being done intelligently in the last generation of equipment. And it's coming about because we can now integrate very, very high-performance analog functions on the same chip with somewhat [INAUDIBLE] in microcontrollers but effective ones like 8051 types and other risk-type controllers. So it's a new -- it's a -- there is some cannibalization, but it's not of our product, it's other discrete approaches to these things.



**Tore Svanberg** *U.S. Bancorp Piper Jaffrey, Inc.*

Understood. Finally, coming back to the notebook market, it's -- obviously, becoming more of wireless technology as well. You mentioned potential market share gains in the notebook market. Would that primarily be on the power management side or on the wireless side?

**John Gifford** *Maxim Integrated Products - Chairman, President, CEO*

Well, we don't count the wireless -- we are now -- yeah, the notebooks are -- we are selling wireless circuits for notebook applications, there's no doubt, but we don't count that as notebook business. We only look at -- when we talk about battery management, power management, we don't have a category called notebooks, in general. We have portable -- products for portable equipment, and those include everything -- and then we have communications products. So when I talk about growth in our notebook business, I'm really talking about everything but the radio.

**Tore Svanberg** *U.S. Bancorp Piper Jaffrey, Inc.*

Great. Thank you for that clarification.

**John Gifford** *Maxim Integrated Products - Chairman, President, CEO*

Yeah.

**Operator**

We'll now hear from Clark Fuse with Fulcrum Global Partners.

**Clark Fuse** *Fulcrum Global Partners*

Hi, Jack. With regards to your wireless business, can you -- I mean, you saw no weakness in the wireless business, but that kind of flies in the face of some other areas that some other companies that have experienced weakness recently. Can you kind of explain to us where your wireless exposure is? Is it primarily CDMA? What percent, about? What kind of countries you tend to ship to and not ship to? That might help kind of explain your strength versus others' weakness.

**John Gifford** *Maxim Integrated Products - Chairman, President, CEO*

Well, you know, I think your analysis is right. First of all, it's not a majority of our business. Okay? It's -- we don't have any one thing that's that big a share of our market of our business. But it's important to us, but it's in the -- the wireless business is 15% of our business, or 16%, something like that. We have growth in the wireless land area, we have growth in the terrestrial radio area, we have growth in the CDMA -- in the advanced CDMA phone areas. We have -- we provide a high level of integration, probably the highest level of integration in the world as far as no other company is providing radios with as much integration as Maxim has. We integrate passive compos; we integrate the power amplifier. So we are providing a level of product that people desire in terms of these next-generation phones. We have no business in the GSM area or these other areas. So we're just -- we're a CDM A -- fundamentally a CDMA company in the cell phone area.

**Clark Fuse** *Fulcrum Global Partners*

And I take it your exposure to Korea is less?

**John Gifford** *Maxim Integrated Products - Chairman, President, CEO*

Well, I don't what that means. You mean exposure? You mean the North Koreans?

**Clark Fuse** *Fulcrum Global Partners*

No. Good. Touche. No, I meant Samsung, LG.

**John Gifford** *Maxim Integrated Products - Chairman, President, CEO*

I don't consider them an enemy, no, they're customers of ours.

**Clark Fuse** *Fulcrum Global Partners*

Right, but are they less a portion of your business than other CDMA?



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**John Gifford Maxim Integrated Products - Chairman, President, CEO**

They're not less. They're major CDMA companies. So is -- there's a set of five or six of them. They're all customers.

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**Clark Fuse Fulcrum Global Partners**

Okay. How about the ATE business? There's been some reports that the test equipment guys are starting to show some signs of life. What do you see there?

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**John Gifford Maxim Integrated Products - Chairman, President, CEO**

Would you have them call me?

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**Clark Fuse Fulcrum Global Partners**

So you're suggesting that that's still kind of a dead market as it's been for you for awhile?

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**John Gifford Maxim Integrated Products - Chairman, President, CEO**

It's not -- it's not getting deader, but it isn't -- it hasn't started to improve yet. It's not -- no, it's not one of the markets that I would say is improved last quarter.

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**Clark Fuse Fulcrum Global Partners**

Great. And you said your end market expectations for the first quarter was 330 million. Do you have a number for overall fiscal '04?

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**John Gifford Maxim Integrated Products - Chairman, President, CEO**

Yeah, I can share with you what our business units are planning on, and what they believe, and they believe that they are going to -- there's a demand for about \$1.5 billion of our product this year, in the next 12 months.

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**Clark Fuse Fulcrum Global Partners**

Great. And one other housekeeping thing. What kind of depreciation are you expecting for next year?

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**John Gifford Maxim Integrated Products - Chairman, President, CEO**

About 14 million a quarter. Nothing changed. That's the depreciation expense.

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**Clark Fuse Fulcrum Global Partners**

And tax rate is still 33%?

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**John Gifford Maxim Integrated Products - Chairman, President, CEO**

Yeah.

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**Clark Fuse Fulcrum Global Partners**

Super. That's it for me.

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**John Gifford Maxim Integrated Products - Chairman, President, CEO**

Thank you.

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**Operator**

Moving on we hear from Doug Friedman with UBS Investment Bank.

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**Doug Friedman UBS Investment Bank**

Thank you. Jack, a lot of my questions have been asked and answered, but you mentioned quite a bit about the up integration and higher lead count products, yet that flies against some of the numbers that we're seeing out of the large reporting companies with overall

analog ASP's dropping. Can you comment on the products that Maxim and Dallas are introducing and whether you are seeing opportunities for higher ASP type of products or whether your ASP's of new products introduced are actually lower than the existing product base.

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**John Gifford Maxim Integrated Products - Chairman, President, CEO**

Our -- you know, we have -- gosh. We introduce so many products a quarter in a year, but I'm going to have to generalize a bit. But on balance, the products we are introducing are of higher complexity than other companies. That, I'm sure is correct. And I think our -- you know, our ASP's are higher for each generation of product that we come out with simply because there's more integration. Having said that, there are areas that, you know -- prices are, on a per function basis, the cost of microchips, or the cost of function is going down, which is what's causing this amazing, this tremendous unit growth and the pervasiveness of what we do. But we're doing more of it now. And so, therefore, we're collecting more revenue, but the price per function on a component basis, on an amplifier basis or [comparator] basis or maybe even a data converter basis is down, but overall, on a per chip basis, it's not down.

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**Doug Friedman UBS Investment Bank**

All right. Just sort of a follow-up to that. Do you foresee any change in your company's strategy regarding 802.11 type of circuits that we've seen by recently by others in the analog space due to heavy price pressure and standardization in that market? Do you see --

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**John Gifford Maxim Integrated Products - Chairman, President, CEO**

Were you on the last conference call?

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**Doug Friedman UBS Investment Bank**

No, I was not.

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**John Gifford Maxim Integrated Products - Chairman, President, CEO**

Okay. Well, I think in the last two or three conference calls, at least, and for the last year I've said 802.11 is a valuable function and it's a valuable technology. It's providing -- it's benefiting mankind. But as far as a -- an important place to be, you know, a strategic place to be as a supplier of those, how strategic it is, it's not very. Anytime you're supplying a product to a standard or to a regulation, I mean, it's a commodity, or will soon be a commodity, and so, you know, you're not going to -- there's going to be a lot of people making those circuits. The guys that will make some money on it will be the low-cost producers. We're one of those, but, you know, it's not -- there's not a lot of after -- this next generation, there's not going to be a lot of value-added making -- designing new circuits. And so, you know, you're going to probably not design another one.

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**Doug Friedman UBS Investment Bank**

All right. Thank you.

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**Operator**

We will now hear from Krishna Shankar with JMP Securities.

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**Krishna Shankar JMP Securities, LLC**

Can you give us an indication for bookings trends in mobile computers sequentially from the March to the June quarter, and also for other areas such as industrial and factory-related analog circuits?

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**John Gifford Maxim Integrated Products - Chairman, President, CEO**

I think I've done that to the extent that I can on a conference call like this. I really would -- I don't want to really repeat myself.

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**Krishna Shankar JMP Securities, LLC**

What about the industrial market and your orders from the distribution channel? Can you characterize sequential trends in those two areas?



**John Gifford Maxim Integrated Products - Chairman, President, CEO**

Yeah, the industrial or general purpose -- not general purpose, but the mixed-signal analog product that tend to go into a broad variety of applications, we've had growth in the last two quarters in those areas. We have three business units in Dallas that serve those markets, those broad markets, and we have one large business unit at Maxim, and it's about 40% of our business when you combine the two. They are growing.

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**Krishna Shankar JMP Securities, LLC**

Okay. Thank you.

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**Operator**

We'll now hear from Andrew Root with Goldman Sachs.

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**Andrew Root Goldman Sachs**

Thanks. Quick question, Jack. I wanted to go back to something you said in your prepared remarks about the competitive dynamic in your key strengths, which all make complete sense. Then talking about some of the challenges that face the fabless companies, which obviously make sense, but because they're fabless, do you see any difference in how the cycle might evolve because they just kind of refuse to go away. Their cash burn is pretty low, so they really seem to only serve a function of hurting pricing or margins. Do you think that's going to limit the profit cycle for Maxim or other top companies the cycle, or do you think that's all going to sort of come out in the wash?

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**John Gifford Maxim Integrated Products - Chairman, President, CEO**

No, I don't draw that conclusion. My conclusion is that, unfortunately, they have -- in many cases they've developed a function, maybe not unique to them, but a function that's useful, and what -- but they find themselves not able to supply it because of their cost limitations. And it's the customer is, you know, really requiring a different price, and there's other guys making it. So they find themselves not in a position to -- I don't see them as being a price leader. I see them actually getting run out of the market. I don't find that argument -- I mean, that scenario -- I mean, I would put broadcom in that position. I mean, everybody seems to be comfortable that they make 40% gross margins, but if Maxim made 40% gross margins you wouldn't be comfortable with that, and I don't think you're really that viable if you're a 30 or 40% gross margin microchip company, because you're not going to give the customer, you know, the lowest cost possible. So they don't really lead -- these fabless companies do not lead prices down. They basically drop out of the markets, and I think you find, you know, a lot of them for sale right now, and they just -- you can acquire them if you want to acquire the products, but you are pretty much saddled with having to use their foundry processes, too. But the answer to your question, I don't see them as a price leader or as a driving -- or hurting the market

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**Andrew Root Goldman Sachs**

Broadcom aside, are there any companies that you find attractive that are looking to sell themselves?

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**John Gifford Maxim Integrated Products - Chairman, President, CEO**

You know, the ones that are for sale -- there's several radio companies that are for sale, and for that reason, they can't compete. The problem is, if you -- we have most of the radio functions, but somebody who didn't, might buy them. But now, you're fundamentally -- you've got to somehow -- if you don't have your own manufacturing, you're no sense in buying them, and if you do have your own manufacturing, you now have to convert their circuits into your own manufacturing, which is another redesign. So it's pretty cumbersome to acquire these things. I think in some cases there may be, you know, some design automation or software value to some IP that could be of use, but I'm not -- no, I'm not sitting here spending a lot of time evaluating these things right now.

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**Andrew Root Goldman Sachs**

Then the last quick question on the dividend, as a percent of your earnings this quarter, it's in the mid-30's. Is that absent some other use of cash -- compelling use of cash? Is that the kind of pay-out you guys are settling on, or is that still evolving?

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**John Gifford Maxim Integrated Products - Chairman, President, CEO**

Would you start that over? I didn't follow you.



**Andrew Root *Goldman Sachs***

Sure. Your dividend this quarter at 8 cents -- I'm just dividing the 8 cents into your earnings and looking at a dividend pay-out ratio, I think you're kind of answering the question. That's not necessarily a target ratio. It's just where you happen to be today.

**John Gifford *Maxim Integrated Products - Chairman, President, CEO***

I never even -- right. I had not even done that ratio, so I'm ignorant of that ratio. No, we do it -- I tried to explain, our Board, you know, is very conservative, and they, you know, and they're also shareholders, and they -- we feel we want to be as attractive a company as we can to our shareholders, and we want to demonstrate that we are a profitable cash generating company and that we can distribute a dividend that's interesting without it having any effect on our operating ability, and that's what we're doing here. I mean, that number is, you know, gee, we generate \$400 million of cash a year, and, you know, we're -- we clearly can -- we've got 1.2 billion in the bank. We clearly can distribute \$100 million without it having any effect. That's what it's all about.

**Andrew Root *Goldman Sachs***

That makes sense. Thanks.

**Operator**

Moving on we hear from Jeff Rosenberg with William Blair.

**Jeffrey Rosenberg *William Blair & Company, LLC***

Hi. I just wanted to ask about the \$20 million of increased compensation. How much of that falls into SG&A and R&D combined, and is there any offset there in terms of how much you expect those expenses to increase over the year?

**John Gifford *Maxim Integrated Products - Chairman, President, CEO***

Jeff, I don't have the right break, the exact break-out, but I will tell you right now you will never see the number. It will not -- it won't make any difference. I mean, as far as an increase in expense. I know that the R&D increased about a half million a quarter, so it's about 2 million is the R&D number of the 20, and I guess the rest of it is pretty much above the line.

**Jeffrey Rosenberg *William Blair & Company, LLC***

Some is SG&A, though?

**John Gifford *Maxim Integrated Products - Chairman, President, CEO***

Excuse me?

**Jeffrey Rosenberg *William Blair & Company, LLC***

Some would be SG&A, though, right?

**John Gifford *Maxim Integrated Products - Chairman, President, CEO***

Smaller than the R&D number.

**Jeffrey Rosenberg *William Blair & Company, LLC***

Yeah, because I guess the nature of my question was you said that to get to that 25% of operating expenses ratio you expected to do that with very little growth in operating expenses in the near term, and so we should expect it still to be relatively flat, the operating expense lines combined, in the next few quarters, or --

**John Gifford *Maxim Integrated Products - Chairman, President, CEO***

Well, I mean, I will share with you, you know, the think -- which I tend to not do this, but first of all, I think we're talking, you know, probably, total below-the-line increase in salaries due to those two issues is going to be somewhere in the neighborhood of, you know, \$10 million of the 20. Okay? 2.5 million.



**Jeffrey Rosenberg** *William Blair & Company, LLC*

Um, hmm.

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**John Gifford** *Maxim Integrated Products - Chairman, President, CEO*

I'm sorry, four times -- yeah, two and a half -- that's not right. A half a million, 700,000 -- that's wrong. About 3 to 4 million of it is going to be below the line. The other 17 million, 16 million, is going to be above the line. Okay? So that doesn't have a lot to do with increasing our below-the-line spending as a percent. What I -- what we're going to do, as far as getting -- our goal is to get to 25% below-the-line spending. Obviously, you know, I've got to use good judgment as to how to do that. I'm not going to not grow our engineering organizations. In fact, you know, in the last two quarters, we're adding, you know, 60 people in engineering. But you have to realize that Dallas is operating at -- they have got an abundance of engineers. They have 35% below-the-line spending, and they really do -- we do have a huge headcount in Dallas below the line given their revenue. So we don't have to add anybody in Dallas. So our additions will occur in Maxim, and we will grow, you know, as fast as we can with regard to, you know, our technical people, as fast as we can find them at Maxim. We don't have any plan to not hire. We have no plan to control our -- to stifle our growth by refusing to spend below the line. I'm just saying that we aren't going to spend at Dallas, and we are going to spend at Maxim, and Dallas is going to have revenue growth, as is Maxim. And the result of that will get us -- I believe in the next 12 months, you know, close to 25%.

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**Jeffrey Rosenberg** *William Blair & Company, LLC*

Okay. That's helpful. Thanks.

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**Operator**

There are no further questions at this time, Mr. Jasper. I will turn the call back over to you for any additional closing remarks.

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**Carl Jasper** *Maxim Integrated Products - VP of Finance, CFO*

Thank you, operator. This does conclude Maxim's conference call. We would like to thank you all for your continued participation and interest in Maxim. Thank you.

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**Operator**

That does conclude today's conference. We thank you for your participation.

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