

MAXIM INTEGRATED PRODUCTS INC  
Form 10-K  
August 08, 2011

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-K  
(Mark One)

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

For the Fiscal Year Ended June 25, 2011

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

Commission File Number 001-34192

MAXIM INTEGRATED PRODUCTS, INC.

(Exact name of Registrant as specified in its charter)

Delaware

94-2896096

(State or other jurisdiction of  
Incorporation or organization)

(I.R.S. Employer  
Identification No.)

120 San Gabriel Drive  
Sunnyvale, California 94086

(Address of Principal Executive Offices) (Zip Code)

Registrant's telephone number, including area code: (408) 737-7600

Securities registered pursuant to Section 12(b) of the Act:

Title of each class

Name of each exchange on which registered

Common stock, \$0.001 par value

The NASDAQ Global Select Market

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Sections 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large Accelerated Filer	<input type="checkbox"/>	Accelerated Filer	<input type="checkbox"/>	Non-accelerated Filer	<input checked="" type="checkbox"/>	Smaller Reporting Company	<input type="checkbox"/>
				(Do not check if a smaller reporting company)			

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

The aggregate market value of the voting stock held by non-affiliates of the Registrant based upon the closing price of the common stock on December 25, 2010 as reported by The NASDAQ Global Select Market was \$3,559,148,668. Shares of voting stock held by executive officers, directors and holders of more than 5% of the outstanding voting stock have been excluded from this calculation because such persons may be deemed to be affiliates. Exclusion of such shares should not be construed to indicate that any of such persons possesses the power, direct or indirect, to control the Registrant, or that any such person is controlled by or under common control with the Registrant.

Number of shares outstanding of the Registrant's Common Stock, \$.001 par value, as of July 31, 2011: 294,814,489.

Documents Incorporated By Reference:

(1) Items 10, 11, 12, 13 and 14 of Part III incorporate information by reference from the Proxy Statement for the 2011 Annual Meeting of Stockholders, to be filed subsequently.

MAXIM INTEGRATED PRODUCTS

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## FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These statements are based on our current expectations and could be affected by the uncertainties and risk factors described throughout this filing and particularly in Part I, Item 1A - Risk Factors and in Part II, Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations. These statements relate to, among other things, sales, gross margins, operating expenses, capital expenditures and requirements, liquidity, asset dispositions, product development and R&D efforts, manufacturing plans, pending litigation, effective tax rates, and tax reserves for uncertain tax positions, and are indicated by words or phrases such as "anticipate," "expect," "outlook," "foresee," "forecast," "believe," "could," "intend," "will," "plan," "seek," "project," and variations of such words and similar words or expressions. These statements involve risks and uncertainties that could cause actual results to differ materially from expectations. These forward-looking statements should not be relied upon as predictions of future events as we cannot assure you that the events or circumstances reflected in these statements will be achieved or will occur. For a discussion of some of the factors that could cause actual results to differ materially from our forward-looking statements, see the discussion on "Risk Factors" that appears in Part I, Item 1A of this Annual Report on Form 10-K and other risks and uncertainties detailed in this and our other reports and filings with the Securities and Exchange Commission ("SEC"). We undertake no obligation to update forward-looking statements to reflect developments or information obtained after the date hereof and disclaim any obligation to do so except as required by applicable laws.

## PART I

### ITEM 1. BUSINESS

#### Overview

Maxim Integrated Products, Inc. ("Maxim" or the "Company" and also referred to as "we," "our" or "us") designs, develops, manufactures and markets a broad range of linear and mixed-signal integrated circuits, commonly referred to as analog circuits, for a large number of customers in diverse geographical locations. The analog market is fragmented and characterized by diverse applications, numerous product variations and, with respect to many circuit types, relatively long product life cycles. Our objective is to develop and market both proprietary and industry-standard analog integrated circuits that meet the increasingly stringent quality and performance standards demanded by customers.

We are a Delaware corporation originally incorporated in California in 1983. We are headquartered in Sunnyvale, California. The mailing address for our headquarters is 120 San Gabriel Drive, Sunnyvale, California 94086, and our telephone number is (408) 737-7600. Additional information about us is available on our website at [www.maxim-ic.com](http://www.maxim-ic.com).

We make available through our website, free of charge, our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as soon as reasonably practicable after they are electronically filed with or furnished to the SEC. We assume no obligation to update or revise any forward-looking statements in this Annual Report on Form 10-K, whether as a result of new information, future events or otherwise, unless we are required to do so by applicable laws. A copy of this Annual Report on Form 10-K is available without charge upon written request to: Investor Relations, Maxim Integrated Products, Inc., 120 San Gabriel Drive, Sunnyvale, California 94086.

#### The Mixed Signal Analog Integrated Circuit Market

All electronic signals generally fall into one of two categories, linear or digital. Linear (or analog) signals represent real world phenomena, such as temperature, pressure, sound, or speed, and are continuously variable over a wide range of values. Digital signals represent the "ones" and "zeros" of binary arithmetic and are either on or off.

Three general classes of semiconductor products arise from this distinction between linear and digital signals:

- digital devices, such as memories and microprocessors that operate primarily in the digital domain;
- linear devices such as amplifiers, references, analog multiplexers and switches that operate primarily in the analog domain; and
- mixed-signal devices such as data converter devices that combine linear and digital functions on the same integrated circuit and interface between the analog and digital domains.

Our strategy has been to target both the linear and mixed-signal markets, often collectively referred to as the analog market. However, some of our products are exclusively or principally digital. While our focus continues to be on the linear and mixed signal market, our capabilities in the digital domain enable development of new mixed signal and other products with highly sophisticated digital characteristics. Risks associated with pursuing this strategy are discussed in Item 1A - Risk Factors.

We operate in one reportable segment - the design, development, marketing and manufacturing of a broad range of linear and mixed signal integrated circuits.

Our linear and mixed signal products serve four major end-markets. These major end-markets and their corresponding market segments are noted in the table below:

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MAJOR END-MARKET

MARKET SEGMENT

INDUSTRIAL

Automatic Test Equipment  
Automotive  
Control & Automation  
Electronic Instrumentation  
Medical  
Military & Aerospace  
Security  
Utility & Other Meters  
Other Industrial

COMMUNICATIONS

Basestations  
Network & Datacom  
Telecom  
Other Communications

CONSUMER

Cell Phones  
Digital Cameras  
Handheld Computers  
Home Entertainment & Appliances  
Other Consumer

COMPUTING

Data Storage  
Financial Terminals  
Notebook Computers  
Server & Desktop Computers  
Peripherals & Other Computer

Product Quality

We employ a system addressing quality and reliability of our products from initial design through wafer fabrication, assembly, testing and final shipment. We have received ISO 9001/2, TS 16949 and ISO 14001 certifications for all wafer fabrication, assembly, final test and shipping facilities. Reliability stress testing is performed on products manufactured and sold by Maxim, based on industry standard requirements, in an effort to detect and accelerate the presence of defects that may arise over the life of a product in order to ensure the reliability of our products.

Manufacturing

We primarily manufacture our own wafers and, to a lesser extent, utilize third-party silicon foundries to produce wafers. The majority of processed wafers are subjected to parametric and functional testing at our facilities. The broad range of products demanded by the analog integrated circuit market requires multiple manufacturing process technologies. As a result, many different process technologies are currently used for wafer fabrication of our products. Historically, wafer fabrication of analog integrated circuits has not required the state-of-the-art processing equipment, although newer processes do utilize and require such state-of-the-art facilities and equipment. In addition, hybrid and module products are manufactured using a complex multi-chip technology featuring thin-film, laser-trimmed resistors and other active or passive components. We rely on our own fabrication technologies and facilities to implement such manufacturing requirements. We also utilize unaffiliated manufacturing subcontractors. We are expanding our internal and external manufacturing and test capacity to meet future growth.

During fiscal years 2011, 2010 and 2009, most of our own wafer production occurred at one of our four owned wafer fabrication facilities consisting of the following:

Facility Location	Fiscal Year Acquired
Beaverton, Oregon	1994
San Jose, California	1998
Dallas, Texas	2001
San Antonio, Texas	2004



At the end of fiscal year 2009, we ceased wafer fabrication efforts in our Dallas, Texas facility and converted it into a wafer bump manufacturing facility. In fiscal year 2007, we entered into a supply agreement with Seiko Epson Corporation ("Epson"). In fiscal year 2010, we entered into a supply agreement with Powerchip Technology Corporation ("Powerchip") and Maxchip Electronics Corp. ("Maxchip") to provide 300mm and 200mm wafer capacity. Under these agreements, partner foundries (Epson, Powerchip and Maxchip) have manufactured some of our mixed-signal semiconductor products. These products are manufactured under rights and licenses using our proprietary technology at Epson's fabrication facility located in Sakata, Japan and at Powerchip and Maxchip's fabrication facilities in Hsinchu, Taiwan. In fiscal years 2011, 2010 and 2009 the products manufactured by our partner foundries represented 32%, 19% and 9%, respectively, of our total wafer production.

Our wafer bump manufacturing facility located in Dallas, Texas is used to manufacture products that utilize chip scale packaging ("CSP") or wafer level packaging ("WLP"). CSP or WLP enables integrated circuits to be attached directly to a printed circuit board without the use of a traditional plastic package. In addition, we utilize independent subcontractors to perform wafer bump manufacturing to the extent we do not have the internal capacity or capabilities to perform such services.

Once wafer manufacturing has been completed, wafers are generally sorted in order to determine which integrated circuits on each wafer are functional and which are defective. We currently perform the majority of wafer sort, final test and shipping activities at two facilities located in Cavite, the Philippines and Chonburi Province, Thailand. Our finished products ship directly from either Cavite, the Philippines or Chonburi Province, Thailand to customers worldwide or to other Company locations for sale to end-customers or distributors. In addition, we utilize independent subcontractors to perform wafer sort.

Integrated circuit assembly is performed by foreign assembly subcontractors, located in the Philippines, Malaysia, Thailand, China, Taiwan, Singapore, South Korea and Japan, where wafers are separated into individual integrated circuits and assembled into a variety of packages.

After assembly has been completed, the majority of the assembled product is shipped back to our facilities located in Cavite, the Philippines or Chonburi Province, Thailand where the packaged integrated circuits undergo final testing and preparation for customer shipment. In addition, we utilize independent subcontractors to perform final testing.

With the introduction of 300mm wafers into our manufacturing network, we have enabled subcontractors located in Taiwan to perform wafer bumping and testing of 300mm wafers.

We currently perform substantially all of our module assembly operations in our facility in Batangas, Philippines. The Batangas, Philippines facility also performs wafer singulation and tape-and-reel of bumped (CSP or WLP) wafers.

#### Customers, Sales and Marketing

We market our products worldwide through a direct-sales and applications organization and through our own and other unaffiliated distribution channels to a broad range of customers in diverse industries. Our products typically require a sophisticated technical sales and marketing effort. Our sales organization is divided into domestic and international regions. Distributors and direct customers generally buy on an individual purchase order basis, rather than pursuant to long-term agreements.

Certain distributors have agreements with us which allow for price protection on certain inventory if we lower the price of our products. Certain distributor agreements also generally permit distributors to exchange a portion of certain purchases on a periodic basis. As is customary in the semiconductor industry, our distributors may market products

which compete with our products.

Sales to certain international distributors are made under agreements which permit limited stock return privileges but not sales price rebates. The agreements generally permit distributors to exchange a portion of their purchases on a periodic basis. See "Critical Accounting Policies" in Part II, Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations and Note 2 to the Consolidated Financial Statements accompanying this Annual Report on Form 10-K, which contains information regarding our revenue recognition policy.

We derived approximately 30% of our fiscal 2011 revenue from sales made through distributors. Our primary distributor is Avnet Electronics which accounted for 14% and 12% of our revenues in fiscal years 2011 and 2010, respectively. Avnet, like our other distributors is not an end customer, but rather serves as a channel of sale to many end users of the Company's products. Samsung, our largest single customer, excluding distributors, accounted for approximately 12% of net revenues in fiscal years 2011 and 2010, and no other single customer accounted for more than 10% of revenue in fiscal year 2011, 2010 and 2009, not including distributors. No single product accounted for more than 10% of net revenues in fiscal years 2011, 2010 and 2009. Based on customers' ship-to locations, international sales accounted for approximately 85%, 85% and 82% of net revenues in fiscal years

2011, 2010 and 2009, respectively. See Note 12, "Segment Information" in the Notes to Consolidated Financial Statements in Item 15.

### Seasonality

The seasonality for any specific period of time has generally not had a material impact on our results of operations. As explained in our risk factors in this report, our revenue is more likely to be influenced on a quarter to quarter basis by customer demand patterns.

### Foreign Operations

We conduct business in numerous countries outside the United States. During fiscal 2011, we derived approximately 85% of our net revenues from customers in international markets. Our international business is subject to numerous risks, including fluctuations in foreign currency exchange rates and controls, import and export controls, and other laws, policies and regulations of foreign governments as further described in the risk factors in this report.

### Backlog

At June 25, 2011 and June 26, 2010, our current quarter backlog was approximately \$460 million and \$614 million, respectively. We include in our backlog orders with customer request dates within the next 3 months. As is customary in the semiconductor industry, these orders may be canceled in most cases without penalty to customers. In addition, our backlog includes orders from domestic distributors for which revenues are not recognized until the products are sold by the distributors. Accordingly, we believe that our backlog at any time should not be used as a measure of future revenues. All backlog numbers have been adjusted for estimated future U.S. distribution ship and debit pricing adjustments. Please refer to the Risk Factor titled "Incorrect forecasts, reductions, cancellations or delays in orders for our products could adversely affect our results of operations" for the risks associated with backlog.

### Research and Development

We believe that research and development is critical to our future success. Objectives for the research and development function include:

- product definition and development of proprietary products;
- design of parts for high yield and reliability;
- development of, and access to, manufacturing processes and advanced packaging; and
- development of hardware and software to support the acceptance and design-in of our products in the end customer's system.

Our research and development plans require engineering talent and tools for process technologies, test development, packaging development, product definition, electronic design automation ("EDA"), circuit design, software development and applications support. Research and development expenses were approximately \$525.3 million, \$474.7 million and \$520.2 million in fiscal years 2011, 2010 and 2009, respectively. See "Research and Development" under Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, for more information.

### Competition

The mixed signal analog integrated circuit industry is intensely competitive, and virtually all major semiconductor companies presently compete with, or conceivably could compete with, some portion of our business.

We believe the principal elements of competition include:

- technical innovation, service and support;
- time to market;
- product performance and features;
- quality and reliability;
- product pricing and delivery capabilities;
- customized design and applications;
- business relationship with customers;

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- experience, skill and productivity of employees and management; and
- manufacturing competence and inventory management.

Our principal competitors include, but are not limited to, Texas Instruments Inc., Analog Devices, Inc., Intersil Corporation, Linear Technology Corporation, and National Semiconductor Corporation which has entered into an agreement to be acquired by Texas Instruments. In addition, we expect increased competition in the future from other emerging and established companies. For further description of competitive factors that may affect our future business, please refer to the section entitled "Our operating results may be adversely affected by increased competition" contained in Part I, Item 1A of this Annual Report on Form 10-K.

#### Patents, Licenses, and Other Intellectual Property Rights

We rely upon both know-how and patents to develop and maintain our competitive position. There can be no assurance that others will not develop or patent similar technology or reverse engineer our products or that the confidentiality agreements with employees, consultants, silicon foundries and other suppliers and vendors will be adequate to protect our interests. Our products interface with other products, which may require us to obtain licenses that we do not have.

We hold and pursue intellectual property, including patents, trademarks and trade secrets, as appropriate for our markets and technologies. It is our policy to seek patent protection for significant inventions that may be patented, though we may elect, in appropriate cases, not to seek patent protection even for significant inventions if other protection, such as maintaining the invention as a trade secret, is considered more advantageous. In addition, we have registered certain of our mask sets under the Semiconductor Chip Protection Act of 1984, as amended. We hold a number of patents worldwide with expiration dates ranging from 2011 to 2031. We have also registered several of our trademarks with the U.S. Patent and Trademark Office and in foreign jurisdictions. Likewise, we have registered for and received certain copyrights.

There can be no assurance that any patent will be issued on pending applications or that any patent issued will provide substantive protection for the technology or product covered by it, please refer to the section entitled "We may be unable to adequately protect our proprietary rights, which may impact our ability to compete effectively" contained in Part I, Item 1A of this Annual Report on Form 10-K.

#### Employees

As of June 25, 2011, we employed 9,370 people of whom 4,468 were employed in the United States and 4,902 were employed outside the United States.

#### Environmental Regulations

To date, our compliance with foreign, federal, state and local laws and regulations that have been enacted to regulate the environment has not had a material adverse effect on our capital expenditures, earnings, or competitive or financial position. However, we could be subject to fines, suspension of production, alteration of our manufacturing processes or cessation of our operations if we fail to comply with present or future statutes and regulations governing the use, storage, handling, discharge or disposal of toxic, volatile or otherwise hazardous materials used in our manufacturing processes, please refer to the section entitled "Environmental liabilities could force us to expend significant capital and incur substantial costs" contained in Part I, Item 1A of this Annual Report on Form 10-K.

#### Executive Officers

For information regarding our current executive officers, please see Part III, Item 10 of this Annual Report on Form 10-K.

## ITEM 1A. RISK FACTORS

The following risk factors and other information included in this Annual Report on Form 10-K should be carefully considered. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us or that we presently deem less significant may also impair our business operations. Please also see the introductory section of this Annual Report on Form 10-K entitled "Forward-Looking Statements" for additional discussion regarding forward-looking statements. If any of the events or circumstances described in the following risk factors actually occurs, our business, operating results, and financial condition could be materially adversely affected.

Cyclical nature in the semiconductor industry may adversely affect our results of operations

The semiconductor industry historically has been cyclical and subject to significant and often rapid increases and decreases in demand for products and services. These changes could have adverse effects on our results of operations and on the market price of our common stock. The results of our operations may be adversely affected in the future if demand for our products and services decreases or if we are unable to meet an increase in demand without significantly increasing the lead-time for the delivery of our products and services.

Incorrect forecasts, reductions, cancellations or delays in orders for our products could adversely affect our results of operations

As is customary in the semiconductor industry, customer orders may be canceled in most cases without penalty to the customers. Some customers place orders that require us to manufacture products and have available for shipment, even though the customer may be unwilling to make a binding commitment to purchase all, or even any, of the products. In other cases, we manufacture product based on forecasts of customer demands. As a result, we may incur inventory and manufacturing costs in advance of anticipated sales and are subject to the risk of cancellations of orders, potentially leading to an initial inflation of backlog followed by a sharp reduction. In addition, our backlog includes orders from domestic distributors for which revenues are not recognized until the ordered products are sold by the distributors. When combined with the risks of order cancellation, our backlog cannot be used as a measure of future revenue. Furthermore, orders or forecasts may be for products that meet the customer's unique requirements so that those canceled or unrealized orders would, in addition, result in an inventory of unsaleable products, causing potential inventory write-offs. As a result of lengthy manufacturing cycles for certain of the products, the amount of unsaleable products could be substantial. As a result, incorrect forecasts, reductions, cancellations or delays in orders for our products could adversely affect our operating results.

Our operating results may be adversely affected by unfavorable economic and market conditions

The economic environment could subject us to increased credit risk should customers be unable to pay us, or delay paying us, for previously purchased products. Accordingly, reserves for doubtful accounts and write-offs of accounts receivable may increase. In addition, weakness in the market for end users of our products could harm the cash flow of our distributors and resellers who could then delay paying their obligations to us or experience other financial difficulties. This would further increase our credit risk exposure and, potentially, cause delays in our recognition of revenue on sales to these customers.

If global economic and market conditions, or economic conditions in the United States or other key markets, deteriorate, we may experience material adverse effects on our business, operating results, and financial condition

Political conditions could materially affect our revenues and results of operations

We are subject to the political and legal risks inherent in international operations. Exposure to political instabilities, different business policies and varying legal standards could impact economic activity, which in turn, could lead to a contraction of customer demand or a disruption in our operations. We have been affected by these problems in the past, but none have materially affected our results of operations to date. Problems in the future or not-yet-materialized consequences of past problems, could affect deliveries of our product to our customers, possibly resulting in substantially delayed or lost sales and/or increased expenses that could materially adversely affect our financial condition and results of operations.

Our quarterly operating results may fluctuate, wh