

MAXIM INTEGRATED PRODUCTS INC

Form PRE 14A

July 30, 2004

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

SCHEDULE 14A

(Rule 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities

Exchange Act of 1934 (Amendment No.)

Filed by the Registrant
Filed by a party other than the
Registrant

Check the appropriate box:

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| <input checked="" type="checkbox"/> Preliminary proxy statement | <input type="checkbox"/> Confidential, For Use of the
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Maxim Integrated Products, Inc.

(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box):

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1996 STOCK INCENTIVE PLAN

Dear Maxim Stockholder:

You are invited to attend a Special Meeting of Maxim Stockholders scheduled to commence at 11:00 a.m. on Friday, September 17, 2004 at the Company's Event Center, located at 433 N. Mathilda Avenue, Sunnyvale, California. At this special meeting you will be asked to vote on our stock option proposal, which has been recommended unanimously by Maxim's Board of Directors. We have had the opportunity in recent weeks to speak to some of you personally about how vital our stock option plan is to our future growth. With this letter, I am seeking your support of our management and our Board in your approval of the addition of 13 million shares (4% of outstanding shares, 3.8% of diluted shares), to our option plan.

The management and the Board of Directors of Maxim believe that the Company is entering a period of growth. In order to achieve Maxim's long-range plan and maximize stockholder value, management and the Board of Directors believe it is imperative that the stockholders approve an addition to our employee stock option pool equal to 4% of our outstanding shares. The rationale for this addition to the pool is set forth below:

Maxim's Option Program Works.

Over the last 10 fiscal years ended June 26, 2004, Maxim's stock price has appreciated at a compound annual growth rate (CAGR) of 32.2%, significantly higher than Analog Devices (25.7%) and Linear Technology (23.8%), its two primary competitors.

On average, Maxim made option grants net of cancellations equal to 5.5% of outstanding shares per year over the 10 fiscal years ended 2003 (the most recent ten years for which comparative data is available), and Maxim reduced this rate to an average of 4.2% over the 5 years ended 2003. During the ten fiscal years ended June 26, 2004, the Company's stock price increased from \$3.16 per share to \$52.03 per share, a 16.5 fold increase. By contrast, in the same period, Maxim's two primary competitors, Analog Devices and Linear Technology, increased their stock prices by 10.1 and 8.5 fold, respectively.

While stock options are extremely valuable to employees, a careful analysis indicates that a large increase in option grants does not necessarily have a significant cost to stockholders. It takes a very small increase in the growth rate in the market value of the enterprise to fully offset the impact of granting more options. For example, if over a 10-year period a company grants options equal to 2% of outstanding shares per year and grows its market value at an annual rate of 25%, the break-even growth rate in market value to fully compensate existing stockholders for granting 4% options per year is 25.8%. Any growth rate in market value above 25.8% provides a return premium to the stockholders. We believe Maxim's superior compound annual stock price growth rate of 32.2% for the most recent 10 years resulted, in significant measure, from the productivity stimulus associated with our higher option grant rate. If we are correct, the financial benefits to the existing investors from higher appreciation of our stock far outweighed the value transfer resulting from the higher option grants.

Had Maxim's stock price appreciated at the same average compound annual growth rate as Analog and Linear (which was 25.0%), its market value at June 26, 2004 would have been only \$10 billion, \$8 billion less than its actual value of approximately \$18 billion on that date.

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Maxim believes that it could not have achieved such superlative performance nor outperformed its closest competitors by such a large margin without its option program.

Maxim employees are not over-compensated.

Maxim's compensation program is heavily tilted toward performance rather than guaranteed cash payments.

Salary. We believe that Maxim's salaries are generally lower than in comparable companies. For example:

Officers: At \$300,000 for the CEO and \$200,000 for the Vice Presidents, Maxim estimates its officers' annual salaries are 33% to 75% lower than industry averages. Despite these low salaries, during the industry downturn, in October 2002 through September 2003, the CEO's salary was reduced 100% and vice president salaries were reduced 30% in order to maximize profits for our stockholders.

R&D and Engineering. Maxim's technical people earn lower salaries (on average) than those paid in comparable companies. A sample of 19 recent hires in engineering showed that these new employees joined Maxim at salaries that were 14% less, on average, than they earned with their previous employers.

Bonus. Maxim pays officer bonuses only upon meeting aggressive individual and company performance goals. Officer bonuses are paid under a plan approved by stockholders and are conditioned on Maxim achieving annual increases (targeted at 30%) in earnings per share and stock price. (Note: In fiscal 2002, the downturn in the semiconductor industry resulted in officers' bonuses being zero despite the fact that Maxim earned net income of \$259.2 million in that year, which was significantly more than its closest competitors, Analog Devices and Linear Technology, earned in the comparable period. In Linear's comparable fiscal year it earned \$197.6 million and paid substantial executive bonuses.)

Stock Options. Stock options are granted to employees, first and foremost, to stimulate employee productivity for the purpose of maximizing stockholder value. Options are also used and are quite necessary to make up for the lower salaries Maxim pays. Maxim employees are a self-selected group of entrepreneurs that realize that they can only gain if the stockholders gain much more.

When viewed in total salary, bonus and options Maxim's employees are not over-compensated for the risks they take and the extraordinary results they deliver. Maxim believes options are the most important part of its compensation mix.

Maxim's Option Plan is Managed for the Best Interests of the Stockholders.

Maxim only grants employee options under plans that have been approved annually by stockholders.

All of Maxim's options are granted at fair market value.

Maxim does not re-price its options.

Over 5,400 employees (including over 98% of salaried employees) hold options.

On average over the five fiscal years ended 2003, 86% of Maxim options have been granted to employees below the officer level.

Over the last six fiscal years almost 30% of options have been granted to new employees.

Almost 50% of options go to R&D and engineering personnel, which are the lifeblood of the company and the primary drivers of Maxim's growth.

Maxim has been proactive in reducing its rate of option grants over the past several years. Our average grant rate net of cancellations for the 10 fiscal years ended 2004 was 4.8% compared to 4.1% for the past 5 years.

Maxim's option program is broadly based, and is concentrated where it will do the most good for stockholders: on new employees, which are needed for our growth and on technical personnel, which are the drivers of our growth.

It is Imperative that Maxim Add 13 Million New Shares to its Option Pool.

Because of Maxim's high growth rate and unusually heavy emphasis on performance compensation in lieu of salary, the Company needs more options than companies that grow more slowly and rely on a different compensation model.

We believe Maxim's stockholders will prosper from our projected long-term growth and performance. Ship demand for Maxim products is projected to grow from about \$1.1 billion in FY 2003 to approximately \$5.0 billion in FY 2008, a compounded annual growth rate of 34%. (Note: Ship demand is a rough estimate of customer consumption which Maxim uses as an indicator of revenue potential; it is not a revenue forecast.)

Maxim's management and board of directors believe it is in danger of losing the fuel for its engine of growth. For the last 10 years, the Company's headcount increased an average of 22% per year. Options available to support this increase in headcount averaged 4.8% (reduced to an average of 4.1% over the past 5 years) of outstanding shares per year. Growth in revenue for FY 2004 and FY 2005 will result in about a 45% increase in headcount during this period. For FY 2004, the Company increased available options by only 2.9%. By adding options equal to 4% of our outstanding shares this year, our average option additions for fiscal years 2004 and 2005 will have been reduced to 3.5%, down significantly from the 4.8% that sustained us and helped us deliver industry-leading results through the last decade.

One size does not fit all and Maxim should not be held to the same standard when it comes to determining the proper size of its option pool as companies which rely more on salary for compensation and which do not grow stockholder value as rapidly.

Maxim is a unique company that, since going public 16 years ago, has been one of the best performers for its stockholders of any company in the world. It has achieved that distinction by recruiting highly talented and driven people. These people are motivated not by salary but by the opportunity to build something great and to share in the wealth created in the process. Maxim believes that the best way to motivate our superior employees is to make them owners. This partnership has produced outstanding results, in which the whole has proven to be significantly greater than the sum of the parts. Accordingly, Maxim's stockholders have fared extraordinarily well — much better, we believe, than if we had paid higher salaries but granted fewer options. There is powerful evidence to this in the comparison of our performance to our peer group of competitors. Given the results we have achieved to date and the opportunity that lies ahead, we ask you not to gamble on the future of your company by changing our well-tested formula for success.

YOURS SINCERELY,

JOHN F. GIFFORD
*President, Chief Executive Officer
and Chairman of the Board*

MAXIM INTEGRATED PRODUCTS, INC.

120 San Gabriel Drive
Sunnyvale, California 94086

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS To Be Held September 17, 2004

To the Stockholders:

Notice is hereby given that a Special Meeting of Stockholders of Maxim Integrated Products, Inc., a Delaware corporation (the "Company"), will be held at the Company's Event Center located at 433 N. Mathilda Avenue, Sunnyvale, California 94086 on Friday, September 17, 2004, at 11:00 a.m. Pacific Time, to consider and vote upon the following proposals:

1. To ratify and approve an amendment and restatement of the Company's 1996 Stock Incentive Plan, as amended, to (a) increase the number of shares available for issuance thereunder by 13,000,000 shares from 104,600,000 shares to 117,600,000 shares and (b) require that all stock options be granted with an exercise price no less than 100% of the fair market value of the Company's Common Stock on the date of grant of the option.

2. To transact such other business as may properly come before the Special Meeting and any adjournment or postponement thereof.

The foregoing items of business are more fully described in the Proxy Statement, which is attached and made a part of this Notice. The Special Meeting will be open to stockholders of record, proxy holders and others by invitation only. Beneficial owners of shares held by a broker or nominee must present proof of such ownership to attend the meeting.

The Board of Directors has fixed the close of business on July 21, 2004 as the record date for determining the stockholders entitled to notice of and to vote at the Special Meeting and any adjournment or postponement thereof.

By Order of the Board of Directors

JOHN F. GIFFORD
*President, Chief Executive Officer
and Chairman of the Board*

Sunnyvale, California
August 18, 2004

YOUR VOTE IS IMPORTANT

Whether or not you plan to attend the Special Meeting, you are urged to submit your proxy as soon as possible so that your shares can be voted at the meeting in accordance with your instructions. You may submit your proxy (1) over the Internet, as outlined on the enclosed proxy card, (2) by telephone, as outlined on the enclosed proxy card, or (3) by signing, dating and returning the enclosed proxy card promptly in the accompanying envelope. If you submit your proxy and then decide to attend the Special Meeting to vote your shares in person, you may still do so. Your proxy is revocable in accordance with the procedures set forth in the Proxy Statement.

MAXIM INTEGRATED PRODUCTS, INC.

120 San Gabriel Drive
Sunnyvale, California 94086

PROXY STATEMENT FOR SPECIAL MEETING OF STOCKHOLDERS

September 17, 2004

General Information

This Proxy Statement is furnished to stockholders in connection with the solicitation of proxies by the Board of Directors (the **Board**) of Maxim Integrated Products, Inc., a Delaware corporation (**Maxim** or the **Company**), for use at its Special Meeting of Stockholders to be held at 11:00 a.m., Pacific Time, on September 17, 2004 at the Company's Event Center located at 433 N. Mathilda Avenue, Sunnyvale, California 94086 and at any adjournment or postponement of that meeting. The approximate mailing date for this Proxy Statement and the enclosed proxy is August 18, 2004.

The proxy holders will vote all proxies in accordance with the instructions contained in the proxy and, if no choice is specified, the proxy holders will vote in favor of the proposal set forth in the Notice of Meeting. Proxies will confer upon the proxy holders discretionary authority to vote upon matters that the Board does not know as of the date hereof but may be presented at the Special Meeting, as well as the authority to adjourn or postpone the Special Meeting in order to assure that all stockholders who wish to vote on the matter will be able to cast their votes and to act upon other matters incident to the conduct of the meeting.

The Board has fixed the close of business on July 21, 2004 as the record date (the **Record Date**) for the determination of stockholders entitled to vote at the Special Meeting. At that time, there were outstanding 324,741,316 shares of Common Stock. The presence of a majority, or 162,370,659, of these shares of the Common Stock, either in person or by proxy, will constitute a quorum for the transaction of business at the Special Meeting.

Revocability of Proxies

Any person signing a proxy in the form accompanying this proxy statement has the power to revoke it prior to or at the meeting. A proxy may be revoked by a written instrument delivered to the Secretary of the Company stating that the proxy is revoked, by a subsequent proxy signed by the person who signed the earlier proxy, or by attendance at the meeting and voting in person. Attendance at the Special Meeting in and of itself does not revoke a prior proxy.

Voting and Solicitation

Holders of Common Stock are entitled to one vote for each share held.

An automated system administered by the Company's transfer agent will tabulate votes cast by proxy at the meeting, and the inspector of elections appointed for the meeting will tabulate votes cast in person at the meeting. The ratification and approval of Proposal No. 1, the amendment to the Company's 1996 Stock Incentive Plan, as amended, increasing the number of shares available for issuance by 13,000,000 shares will require the affirmative vote of a majority of the shares of the Company's Common Stock present or represented and entitled to vote at the meeting.

Abstentions and broker non-votes are each included in the determination of the number of shares present and voting, and each is tabulated separately. Abstentions are treated as shares present or represented and entitled to vote for the purposes of determining whether a matter has been approved by the stockholders, abstentions have the same effect as votes against the proposal. Broker non-votes are not counted for purposes of determining the number of votes cast with respect to a particular proposal and, therefore, will have no effect on the result of the vote. A broker non-vote occurs when a broker submits a proxy card with respect to shares of Common Stock held in a fiduciary capacity (typically referred to as being held in **street name**) but declines to vote on a particular matter because the broker has not received voting instructions from the

beneficial owner. Under the rules that govern brokers who are voting with respect to shares held in street name, brokers have the discretion to vote such shares on routine matters, but not on non-routine matters. Routine matters include, among others, the election of directors and ratification of auditors. Non-routine matters include, among others, approval of actions with respect to a company's stock option plan.

The Company will bear the cost of soliciting proxies. In addition, the Company may reimburse brokerage firms and other persons representing beneficial owners of shares for their expenses in forwarding solicitation material to such beneficial owners. Original solicitation of proxies by mail may be supplemented by telephone, telegram, facsimile or personal solicitation by directors, officers or other regular employees of the Company or, at the Company's request, a private proxy solicitation firm. No additional compensation will be paid to the Company's directors, officers or other regular employees for such services, but any private proxy solicitation firm will be paid their customary fee by the Company, estimated to be \$16,000.

Householding of Special Meeting Materials

Some brokers and other nominee record holders may be participating in the practice of "householding" proxy statements. This means that only one (1) copy of the Proxy Statement may have been sent to multiple stockholders in a stockholder's household. The Company will promptly deliver a separate copy of the proxy statement to any stockholder who contacts the Company's investor relations department at (408) 737-7600 requesting such copies. If a stockholder is receiving multiple copies of the proxy statement at the stockholder's household and would like to receive a single copy of the proxy statement for a stockholder's household in the future, stockholders should contact their broker, other nominee record holder, or the Company's investor relations department to request mailing of a single copy of the proxy statement.

Information Provided in Other Proxy Soliciting Material

The Company previously furnished to stockholders additional proxy soliciting material in connection with the proposals being considered at this Special Meeting, which information was filed with the Securities and Exchange Commission on Schedule 14A dated June 25, 2004 and which therefore is omitted from and superceded by this Proxy Statement.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information regarding the ownership of the Company's Common Stock as of June 26, 2004 by: (i) each director; (ii) each of the executive officers named in the Summary Compensation Table; (iii) all executive officers, directors as a group; and (iv) all those known by the Company to be beneficial owners of more than five percent of its Common Stock. The number of shares beneficially owned is determined under the rules of the Security and Exchange Commission (the "SEC"), and the information is not necessarily indicative of beneficial ownership for any other purpose.

Beneficial Owner	Beneficial Ownership(1)	
	Number of Shares	Percent of Total
Janus Capital Management LLC(2)	33,737,868	10.4%
The TCW Group(3)	32,604,735	10.05%
Barclays Global Investors, NA(4)	28,056,403	8.65%
Capital Research and Management Company(5)	17,781,100	5.48%
AXA (Alliance Capital Management)(6)	17,386,309	5.36%
John F. Gifford(7)	4,644,291	1.42%
Richard C. Hood(8)	1,354,480	*
Tunc Doluca(9)	1,318,316	*
Pirooz Parvarandeh(10)	719,540	*
Fred G. Beck(11)	276,667	*
James R. Bergman(12)	205,000	*
A. R. Frank Wazzan(13)	115,467	*
B. Kipling Hagopian(14)	78,690	*
Merlyn D. Sampels(15)	79,944	*
All executive officers and directors as a group (18 persons)(16)	11,829,290	3.57%

* Less than one percent

- (1) This table is based upon information supplied by officers, directors, nominees for director, principal stockholders and the Company's transfer agent, and contained in Schedules 13G filed with the SEC. Unless otherwise indicated, the address of each person or entity listed is Maxim Integrated Products, Inc., 120 San Gabriel Drive, Sunnyvale, California 94086. Unless otherwise indicated in the footnotes to this table and subject to community property laws where applicable, each of the stockholders named in this table has sole voting and investment power with respect to the shares indicated as beneficially owned. Applicable percentages are based on 324,443,948 shares outstanding on June 26, 2004, adjusted as required by rules promulgated by the SEC.
- (2) These securities are owned by various individual and institutional investors for whom Janus Capital Management LLC ("Janus Capital") serves as investment adviser with power to direct investments and/or sole power to vote the securities. For purposes of the reporting requirements of the Securities Exchange Act of 1934, Janus Capital is deemed to be a beneficial owner of such securities; however Janus Capital expressly disclaims that it is, in fact, the beneficial owner of such securities. Janus Capital holds sole dispositive power and voting power over 33,644,586 of the shares shown and shared dispositive power and voting power over 93,282 shares. The address of Janus Capital Management LLC is 100 Fillmore Street, Suite 300, Denver, CO 80206. The table is based upon information supplied in a Schedule 13G/ A filed February 14, 2004.
- (3) TCW Group, Inc. on behalf of the TCW Business Unit holds shared dispositive power and shared voting power over all shares shown. The address of TCW Group, Inc. on behalf of the TCW Business Unit is 865 South Figueroa Street, Los Angeles, CA 90017. The table is based upon information supplied in a Schedule 13G/ A filed February 10, 2004.

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- (4) Includes shares held by affiliates of Barclays Global Investors, NA (Barclays) and affiliates of Barclays. Of these shares, the respective beneficial owners have sole voting power over 24,880,429 of the shares shown and the sole dispositive power over 24,897,329 of the shares shown. The address of Barclays is 45 Fremont Street, San Francisco, CA 94105. The table is based upon information supplied in a Schedule 13G filed February 17, 2004.
- (5) Capital Research and Management Company (CRMC) is an investment adviser registered under Section 203 of the Investment Advisors Act of 1940 and is deemed to be the beneficial owner of the shares shown as a result of acting as investment advisor to various investment companies registered under Section 8 of the Investment Advisors Act of 1940. CRMC has no voting power and sole dispositive power over all shares shown. The address of CRMC is 333 South Hope Street, 55th Street, Los Angeles, CA 90071. The table is based upon information supplied in a Schedule 13G/ A filed February 13, 2004.
- (6) AXA Assurances I.A.R.D. Mutuelle and certain related entities thereof hold (i) sole voting power over 7,960,692 of the shares shown, (ii) shared voting power over 4,110,265 shares shown, (iii) sole dispositive power over 17,351,519 of the shares shown and (iv) shared voting power over 34,790 shares shown. The address of AXA Assurances I.A.R.D. Mutuelle 370, rue Saint Honore, 75001 Paris, France. The table is based upon information supplied in a Schedule 13G/ A filed February 10, 2004.
- (7) Includes (i) 1,977,988 shares subject to options exercisable within 60 days of June 26, 2004 and (ii) 100,000 shares held by the Gifford Foundation for which beneficial ownership is disclaimed. Does not include shares held in trust for the benefit of Mr. Gifford s children.
- (8) Includes 597,500 shares subject to options exercisable within 60 days of June 26, 2004.
- (9) Includes 657,355 shares subject to options exercisable within 60 days of June 26, 2004.
- (10) Includes 664,000 shares subject to options exercisable within 60 days of June 26, 2004.
- (11) Represents options exercisable within 60 days of June 26, 2004.
- (12) Includes 20,000 shares subject to options exercisable within 60 days of June 26, 2004.
- (13) Includes 34,667 shares subject to options exercisable within 60 days of June 26, 2004.
- (14) Includes 12,000 shares subject to options exercisable within 60 days of June 26, 2004.
- (15) Includes 78,635 shares subject to options exercisable within 60 days of June 26, 2004.
- (16) Includes 7,099,426 shares subject to options exercisable within 60 days of June 26, 2004. Does not include shares held in trust for the benefit of Mr. Gifford s children.

There is no family relationship between any of the directors, or between any of such directors and any of the Company s executive officers.

EXECUTIVE COMPENSATION**Compensation of Executive Officers**

The compensation for the Company's Chief Executive Officer at June 26, 2004 and the four most highly compensated executive officers other than the Chief Executive Officer who were serving as executive officers at June 26, 2004 for all services rendered in all capacities to the Company and its subsidiaries during the fiscal years ended June 26, 2004, June 28, 2003 and June 29, 2002 is set forth below.

Summary Compensation Table

Name and Principal Position	Fiscal Year	Annual Compensation		Long Term Compensation Awards
		Salary(\$)	Bonus \$(1)	Securities Underlying Options (#)
John F. Gifford President, Chief Executive Officer and Chairman of the Board	2004	106,491	TBD	200,000
	2003	80,769	1,788,423	800,000
	2002	300,000		1,400,000
Fred G. Beck Vice President	2004	162,500	TBD	60,000
	2003	155,000	293,960	80,000
	2002	200,000		143,000
Tunc Doluca Sr. Vice President	2004	162,500	TBD	250,000
	2003	155,000	525,144	200,000
	2002	200,000		200,000
Richard C. Hood Vice President	2004	162,500	TBD	50,000
	2003	162,908	350,903	150,000
	2002	208,650		240,000
Pirooz Parvarandeh Sr. Vice President	2004	162,500	TBD	110,000
	2003	155,000	321,438	200,000
	2002	200,000		300,000

- (1) Pursuant to the Company's Bonus Plan, approved by the Company's stockholders in 1997, \$18,794,857 is available for executive officer performance bonuses relating to fiscal year 2004. Under the provisions of the Bonus Plan, the Compensation Committee is not obligated to award the entire bonus pool and no officer may be paid more than 50% of the pool. Performance bonuses for fiscal year 2004 have not yet been determined for the Company's officers. No bonuses were earned under the Company's Bonus Plan in fiscal year 2002.

Options Granted to Executive Officers

The Board and the committees to which it delegates authority currently have authority to grant stock options to employees and others under the 1996 Plan. The following tables set forth certain information regarding stock options granted to, exercised by and owned by the executive officers named in the foregoing Summary Compensation Table during fiscal 2004.

Option Grants in Fiscal Year 2004

Name	Individual Grants				Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term(1)	
	Number of Securities Underlying Options Granted (#)	Percent of Total Options Granted to Employees in Fiscal Year(2)	Exercise or Base Price (\$/Sh)	Expiration Date (3)	5%(\$)	10%(\$)
	John F. Gifford	200,000(4)	0.66%	51.00	1/28/14	6,414,725
Fred G. Beck	60,000(5)	0.20%	51.00	1/28/14	1,924,418	4,876,852
Tunc Doluca	250,000(6)	0.82%	51.00	1/28/14	8,018,406	20,320,216
Richard. C. Hood	50,000(7)	0.16%	51.00	1/28/14	1,603,681	4,064,043
Pirooz Parvarandeh	110,000(8)	0.36%	51.00	1/28/14	3,528,099	8,940,895

- (1) The dollar amounts under these columns are the result of calculations at the assumed 5% and 10% annual rates of stock price appreciation prescribed by the SEC and are not intended to forecast possible future appreciation, if any, of the Company's stock price. No gain to the optionees is possible without an increase in the price of the Company's stock, which will benefit all stockholders.
- (2) Based on a total of 3,051,182 options granted to employees of the Company in fiscal year 2004.
- (3) The options were granted for a term of ten years, but are subject to earlier termination under certain circumstances relating to termination of employment or a change of control of the Company.
- (4) The options were granted on January 29, 2004 and will become exercisable on a quarterly basis during the year ending July 1, 2006.
- (5) The options were granted on January 29, 2004 and will become exercisable on a quarterly basis at the following rates: 20,000 during the year ending July 1, 2006 and 40,000 during the year ending July 1, 2008.
- (6) The options were granted on January 29, 2004 and will become exercisable on a quarterly basis at the following rates: 50,000 each during the years ending July 1, 2005 and July 1, 2006, and 150,000 during the year ending July 1, 2008.
- (7) The options were granted on January 29, 2004 and will become exercisable on a quarterly basis during the year ending July 1, 2008.
- (8) The options were granted on January 29, 2004 and will become exercisable on a quarterly basis at the following rates: 40,000 during the year ending July 1, 2006 and 70,000 during the year ending July 1, 2008.

Aggregated Option Exercises in Fiscal Year 2004

and June 26, 2004 Option Values

Name	Number of Shares Acquired on Exercise (#)	Value Realized (\$)	Number of Securities Underlying Unexercised Options at June 26, 2004 (#)		Value of Unexercised In-the-Money Options at June 26, 2004 \$(1)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
John F. Gifford	308,465	9,309,722	1,782,989	2,598,448	56,507,970	32,308,032
Fred Beck	40,000	1,520,569	259,802	362,500	8,478,943	3,579,256
Tunc Doluca	116,473	5,228,000	624,855	682,500	23,917,791	7,166,177
Richard C. Hood	152,500	6,870,803	574,751	466,198	22,421,699	5,896,746
Pirooz Parvarandeh	160,000	7,357,880	638,000	639,449	25,405,312	7,082,541

(1) Based on a price per share of \$52.03, which was the price of a share of Common Stock on the Nasdaq National Market at the close of business on June 25, 2004.

Employment Agreements

The Company has entered into employment agreements with each of Messrs. Beck, Doluca, Hood and Parvarandeh. The agreements do not grant the executive officers any right to be retained by the Company, and the Company may terminate employment of each executive officer either with or without cause. In the event of termination of employment by the Company with or without cause, all compensation and benefits, except benefits provided by law (e.g., COBRA health insurance continuation benefits) immediately cease to accrue. However, in the event of termination of employment by the Company without cause, severance payments are to be made in accordance with the Company's normal policy or as mutually agreed between the Company and the executive officer.

If the executive officer terminates his full-time employment with the Company and his written notice of termination provides that he is willing to continue to provide certain services to the Company, the Company will make health insurance coverage available to the executive officer and his family. The terms of his service, unless otherwise agreed, will provide for part-time services (up to one day per month) and annual compensation equal to at least 5% of the executive officer's base salary at the time of termination. Health insurance coverage means coverage under any group health plan the Company maintains for its employees.

During the ten-year period following the notice of termination, the executive officer pays the same amount for health coverage as a similarly situated full-time employee is required to pay for coverage under the Company's group health plan. After the ten-year period, the executive officer pays the Company's cost of the coverage. In the event of the executive officer's death while receiving health insurance coverage, the executive officer's spouse is eligible for health insurance coverage until her death so long as she pays for the coverage in an amount equal to the cost for an employee with identical coverage. In the event the executive officer becomes disabled while receiving health insurance coverage, he is deemed to have met his service obligations to the Company during the disability.

In addition to the executive officers identified above, most other officers of the Company are parties to employment agreements with provisions substantially similar to those described above.

Mr. Gifford entered into an employment agreement with the Company in 1987, which was amended and restated in February 1994. The agreement provides that Mr. Gifford propose annually the amount of his bonus to the Board, which shall reflect the Company's achievements and profitability for the preceding year, and shall be reflective of the accomplishments of the management group as a whole. The Board, in its discretion, shall approve or modify such proposed bonus; provided that any bonus awarded shall not be less than the bonus paid to any officer. The employment agreement provides vesting for 100% of the unvested portion of his stock options either upon Mr. Gifford's death or upon his disability, which results in his termination of employment, while employed by the Company. The employment agreement also provides that in the event

Mr. Gifford becomes disabled while employed by the Company, as long as Mr. Gifford remains disabled, the Company will provide for continuation of his base salary (offset by any earnings) for life through insurance or direct payment, or both. In addition, if Mr. Gifford's employment with the Company is terminated due to disability, the Company will provide to Mr. Gifford post-employment health insurance coverage on the same terms as the other officers described above. In addition, in the event Mr. Gifford's employment is terminated without cause, as defined in the agreement, the Company will retain Mr. Gifford and Mr. Gifford agrees to remain available to the Company for a period of either (i) one year, in the event that his employment is terminated with justification, as defined in the agreement or (ii) two years, if his employment is terminated without justification, as defined in the agreement. During the period that Mr. Gifford continues to serve the Company, he shall not be required to devote more than two days a week to such activities. During the period of Mr. Gifford's retention as a service provider, he shall be entitled to full pay, which is defined as his average annual total compensation (salary plus bonus) received during the previous two years, normal employee benefits, and his stock options and shares of restricted stock shall continue to vest. In addition, if Mr. Gifford's employment is terminated without cause or justification, the vesting of his stock options and shares of restricted stock shall be immediately accelerated so that the options and stock that would otherwise have vested over the two year period commencing two years after the date of termination shall become immediately exercisable. Thus, if his termination is without cause or justification, Mr. Gifford will vest a total of four years of options and restricted stock, two years tied to continuing service retention and two years by acceleration of vesting that would otherwise have occurred if he had remained employed for the third and fourth years after the date of his termination. The employment agreement also provides that upon a change of control of the Company, as such term is defined in his employment agreement, 50% of his unvested stock and options shall become fully vested on the date of the sale or merger. The remainder of the stock and options shall become fully vested within one year of the sale or merger, provided that Mr. Gifford is willing (whether or not he is actually requested to do so) to remain as Chief Executive Officer for the remaining vesting period of his options up to a maximum of one year. The employment agreement provides Mr. Gifford fringe benefits substantially equal to other officers. If Mr. Gifford terminates his full-time employment with the Company and his written notice of termination provides that he is willing to continue to provide certain services to the Company, the Company will provide to Mr. Gifford post-employment health insurance coverage on substantially the same terms as the other officers described above.

In addition, the Company and Mr. Gifford have entered into a deferred compensation plan, pursuant to which Mr. Gifford defers receipt of a portion of his cash compensation. Deferred payments bear interest at the rate equal to the interest rate (as adjusted from time to time) that employees of the Company are required to pay the Company under the Company's employee loan program (4.2% in fiscal year 2004). Interest is credited at least quarterly. Deferred payments, including interest, are payable beginning (i) upon Mr. Gifford's termination as an employee or service provider to the Company, in approximately equal quarterly installments over a five year period with interest at the Bank of America prime rate from time to time, (ii) upon his death, payable to his designated beneficiary, in a lump sum payment as soon as administratively possible or (iii) in the event of an unforeseeable emergency. As of June 26, 2004, Mr. Gifford's deferred account balance, including interest thereon, totaled \$18,414,923.

Notwithstanding anything to the contrary set forth in any of the Company's previous filings under the Securities Act of 1933, as amended (the Securities Act), or the Securities Exchange Act of 1934, as amended (the Exchange Act), that might incorporate future filings, including this Proxy Statement, in whole or in part, the following Compensation Committee Report on Executive Compensation and Performance Graph shall not be deemed to be soliciting material or to be filed with the Securities and Exchange Commission, nor shall such information be incorporated by reference into any such filings under the Securities Act or the Exchange Act.

COMPENSATION COMMITTEE REPORT ON EXECUTIVE COMPENSATION

The Compensation Committee of the Board is authorized to determine salaries and incentive compensation for the Company's Chief Executive and other officers. The strategy followed by the Compensation Committee emphasizes incentive compensation over salary to create a strong link between compensation and

performance, and thereby more effectively align management with the interests of stockholders. Incentive compensation is comprised of bonuses and stock options. The Chief Executive normally recommends salaries, bonuses and option grants to the Compensation Committee. The levels of incentive compensation are related to both corporate and individual performance. Corporate performance is judged based upon results in the current year, but more importantly on the Company's performance over the longer term. Individual performance is measured based upon particular responsibilities of each function, performance to specified goals and general management skills.

Salary. The Compensation Committee meets at least annually to review and approve each officer's salary for the ensuing year. The base salary component of compensation is a standardized minimum for the Chief Executive Officer and each Vice President that does not change substantially from year-to-year under normal circumstances and is not intended to be tied to individual responsibilities or performance. By contrast the bonus component of compensation is intended to compensate for performance exceeding minimum expected levels and varies according to the importance to the Company of the functions performed and the quality of the individual's performance. Individual members of the Compensation Committee take into consideration their knowledge of published information regarding the compensation of officers at companies comparable to Maxim. Officer salaries for the first quarter of fiscal 2004 were reduced by 30% from fiscal 2002 levels to support Company-wide cost reduction goals. Beginning with the second quarter of fiscal 2004, officers received 85% of their fiscal 2002 salary levels.

Bonus. In 1997, the Company adopted, and its stockholders approved, a Bonus Plan for the Company's officers. Under the Bonus Plan, a bonus pool of up to a maximum of 3% of the Company's pre-tax earnings will be created, with the specific amount of the pool determined by equal weighting of two performance criteria: (a) up to 1 1/2% of such earnings tied to the year-to-year rate of growth in the Company's earnings per share and (b) up to 1 1/2% of such earnings tied to the year-to-year increase in the market price of its stock. The bonus pool will be based on the Company's actual achievement related to these objective performance criteria versus a target growth of 30% per year for each test. From this pool, each officer will receive a bonus in respect of each fiscal year, in an amount to be approved by the Compensation Committee based on the same objective performance criteria and the analysis and recommendations of the Chief Executive Officer. The maximum bonus that may be paid in any fiscal year to any officer, including the Chief Executive Officer, is one-half of the pool. After the end of each fiscal year, the Compensation Committee is to determine and certify the Company's performance as compared to the criteria set for that fiscal year, and to determine the amount of each officer's bonus for such year. The Compensation Committee reserves the right to pay any officer less than the maximum bonus determined under the objective performance criteria based upon the Compensation Committee's determination of that officer's individual performance during the year and on all other relevant factors, including other compensation received during the year, such as stock option grants. The actual cash bonus for each individual officer, aside from the Chief Executive Officer (discussed below), is determined by first setting a maximum bonus for each officer position based upon perfect performance of that position and the total bonus pool available, and then considering the individual performance of the officer involved. Officer bonuses for fiscal 2004 have not yet been determined.

In addition to bonuses paid pursuant to the Bonus Plan, the Company has the authority to give bonuses to officers outside the terms of the Bonus Plan. Bonuses given outside the Bonus Plan may be based on specific officer-group achievements, such as the successful completion of the Dallas Semiconductor merger or for other individual reasons. No such bonuses were made with respect to fiscal year 2004.

Stock Options. Given the Company's commitment to growing earnings and earnings per share and its philosophy that stock incentives are the best way to assure alignment of the employees' and the stockholders' interests, the Company believes it cannot rely solely on cash compensation to compete for and to provide incentives to its employees. Stock options are, therefore, used by the Company to provide long-term incentives to officers and employees. The Company has attempted for a number of years to provide for each officer, and for most other employees who participate in the Company's stock option program, a number of shares subject to stock options that will vest over a continuous period of usually five years into the future. To accomplish this, the Company has periodically added options scheduled to begin vesting after existing grants have become fully vested. The number of stock options per officer is determined, based on recommendations by the Chief

Executive Officer, by an assessment principally of the significance of the function performed by the officer and also of the officer's individual past, current and expected future contribution to the success of the Company.

Chief Executive Officer Compensation. To support Company-wide cost reduction goals, for the first quarter of fiscal 2004 Mr. Gifford received no salary. Beginning with the second quarter of fiscal 2004, Mr. Gifford received 50% of his fiscal 2002 salary level. Mr. Gifford is a participant in the Bonus Plan and is subject to the maximum Bonus Plan limitation described above. Consistent with the Bonus Plan and Mr. Gifford's Employment Agreement, his annual bonus shall reflect the Company's achievements and profitability for the preceding year, and shall be reflective of the accomplishments of the management group as a whole. Mr. Gifford's bonus for fiscal year 2004 has not yet been determined.

Section 162(m). Section 162(m) of the Internal Revenue Code (the Code) limits the Company to a deduction for federal income tax purposes of no more than \$1 million of compensation paid to the Chief Executive Officer and the four other most highly paid executive officers in a taxable year. Compensation above \$1 million may be deducted if it is performance-based compensation within the meaning of the Code.

The Board has determined that stock options shall be treated as performance-based compensation. The Company's stockholders previously approved the option plans, which would generally allow any compensation recognized by an executive officer named in the Summary Compensation Table as a result of the grant of such a stock option to be deductible by the Company. In addition, the stockholders have approved the Bonus Plan, and the Company believes that awards paid under the Bonus Plan are exempt from the \$1 million deduction limitation of Section 162(m).

COMPENSATION COMMITTEE

James R. Bergman
B. Kipling Hagopian
A. R. Frank Wazzan

PERFORMANCE GRAPH(1)

The following chart shows the value of an investment of \$100 on June 26, 1999 in cash of (i) the Company's Common Stock, (ii) the Nasdaq Stock Market (U.S.) Index and (iii) the Nasdaq Electronic Components Index. All values assume reinvestment of the full amount of all dividends and are calculated as of the end of each fiscal year. The stock price performance shown on this graph is not necessarily indicative of future price performance.

COMPARISON OF FIVE YEAR CUMULATIVE TOTAL RETURN*

**AMONG MAXIM INTEGRATED PRODUCTS, INC.,
THE NASDAQ STOCK MARKET (U.S.) INDEX
AND THE NASDAQ ELECTRONIC COMPONENTS INDEX**