

MAXIM INTEGRATED PRODUCTS INC

Form 10-K

September 30, 2008

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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 28, 2008

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from _____ to _____

Commission File Number 0-16538

MAXIM INTEGRATED PRODUCTS, INC.

(Exact name of Registrant as specified in its charter)

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Delaware
(State or other jurisdiction of

94-2896096
(I.R.S. Employer

Incorporation or organization)

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

None

None

Securities registered pursuant to Section 12(g) of the Act: None¹

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 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 ☒ Accelerated Filer ☐ Non-accelerated Filer ☐ Smaller reporting company ☐
(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 29, 2007 as reported on the Pink OTC Markets was approximately \$4,222,933,000. 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 September 1, 2008: 320,553,460

Documents Incorporated By Reference:

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- (1) Items 10, 11, 12 13 and 14 of Part III incorporate information by reference from the definitive proxy statement (the 2008 Proxy Statement) for the 2008 Annual Meeting of Stockholders, to be filed subsequently.

¹ The Company's common stock par value \$0.001 per share was suspended from trading on NASDAQ effective as of October 2, 2007. On October 17, 2007, NASDAQ filed a Form 25 to effect the delisting of the Company's common stock from NASDAQ. Currently, the Company's common stock is traded on the Pink OTC Market under the symbol MXIM.PK.

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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 the business outlook section 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 and pending litigation, 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 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 2008 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 federal securities laws.

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PART I

ITEM 1. BUSINESS

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 geographically diverse customers. We also provide a range of high-frequency process technologies and capabilities that can be used in custom designs. The analog market is fragmented and characterized by many diverse applications, 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 that was 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.

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 law. 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 partitioning of signals into linear or digital:

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 worlds.

Our strategy has been to target both the linear and mixed-signal markets, often collectively referred to as the analog market. In addition, 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 very sophisticated digital characteristics. Risks associated with pursuing this strategy are discussed in Item 1A Risk Factors.

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

MAJOR END-MARKET	MARKET SEGMENT
INDUSTRIAL	Automatic Test Equipment (ATE) Automotive Financial Terminals Industrial Control Instrumentation Military Medical Other Industrial
COMMUNICATIONS	Base Stations Networking/ Data Communications Telecommunications Other Communications
CONSUMER	Cell Phones Digital Cameras GPS Handhelds & Media Players Home Entertainment Set-top Boxes Other Consumer
COMPUTING	Notebook & Desktop Computers Peripherals Servers & Workstations Storage Other Computing

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.

Product quality is determined by conformance to predetermined specifications. Specifications are either tested during manufacturing or assured by design. Predetermined specifications assured by design are reliant on the stability of the semiconductor manufacturing processes, the amount of process margin and the completeness of product characterization. Specifications tested during manufacturing are dependent on the integrity of the manufacturing test operation, which includes factors such as test software, stability and repeatability of test systems, test set up issues, human error and other factors and variables.

Reliability testing is done during wafer process development, process release, package development, product release stages and limited ongoing reliability monitors to serve as a control of process consistency. Long term thermal, mechanical and environmental testing is performed on a sampling of products in an effort to detect and accelerate the presence of defects that may arise over the life of a product's use to ensure the reliability of the product. The Company performs infant mortality studies on a limited number of our products. We believe that the above testing regime meets industry standards.

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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 mixed signal analog integrated circuit market requires multiple manufacturing process technologies. 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 necessary for the fabrication of advanced digital integrated circuits, although newer processes do utilize and require these state-of-the-art facilities and equipment. In addition, hybrid and module products are manufactured using a complex multi-chip technology featuring thin-film, thick-film, laser-trimmed resistors and other active or passive components. For the majority of these technologies, we rely on our own fabrication facilities and, to a lesser extent, unaffiliated manufacturing subcontractors.

During fiscal years 2008, 2007 and 2006, most of our wafer production requirements 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

In fiscal year 2007, we entered into a five-year supply agreement with Seiko Epson Corporation (Epson) under which Epson will manufacture some of our mixed signal semiconductor products. These products will be manufactured by Epson under non-exclusive rights and licenses using our proprietary technology at Epson's fabrication facility located in Sakata, Japan. Together with Epson, we will cross-license key mixed-signal process technologies which will be deployed at Epson's Sakata, Japan facility. Additionally in fiscal year 2007, we acquired land and a building located on 39 acres in Irving, Texas for \$38.8 million for future wafer manufacturing capacity requirements.

We have a wafer bump manufacturing facility located in Dallas, Texas. We use this facility to manufacture products that utilize chip scale packaging (CSP) or wafer level packaging (WLP). CSP or WLP (collectively referred to as CSP) 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 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.

As is customary in the industry, traditional 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 manufacturing facilities located in Cavite, the Philippines or Chonburi Province, Thailand where the packaged integrated circuits undergo final testing and preparation for customer shipment.

During fiscal year 2007, we completed construction of a module assembly facility in Batangas, the Philippines, on the land we had purchased in fiscal year 2006. We also commenced transition activities of the

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assembly of certain modules from our subcontractor to this new assembly facility. We completed exit activities and discontinued using the subcontractor during fiscal year 2008. All Company-owned equipment and materials have been transferred back to us by the subcontractor.

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 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 of Notes to Consolidated Financial Statements of this Annual Report on Form 10-K, which contains information regarding our revenue recognition policy.

In fiscal year 2008, we selected one of our distributors, Avnet, Inc., as our primary global distributor and ended our distribution arrangements with Arrow Electronics.

We operate in one reportable segment the design, development, marketing and manufacturing of a broad range of linear and mixed signal integrated circuits. No single customer accounted for more than 10% of net revenues in fiscal years 2008, 2007 and 2006. Based on customers ship-to locations, international sales accounted for approximately 80%, 77% and 78% of net revenues in fiscal years 2008, 2007 and 2006, respectively. See Note 16, Segment Information in the Notes to Consolidated Financial Statements.

Backlog

At June 28, 2008 and June 30, 2007, our backlog was approximately \$370 million and \$412 million, respectively. We include in our backlog customer-released orders with firm schedules for shipment within the next 12 months. As is customary in the semiconductor industry, these orders may be canceled in most cases without penalty to the 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.

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, design and layout of innovative proprietary products that meet customer needs consistent with their market timing; development of second-source products; design of parts for high yield and reliability; test development; and development of manufacturing processes and advanced packaging to support an expanding product line and customer requirements 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, business management, Electronic Design Automation

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(EDA), circuit design, software development and application support. Research and development expenses were approximately \$577.7 million, \$659.5 million and \$514.1 million in fiscal years 2008, 2007 and 2006, respectively.

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; and

manufacturing competence and inventory management.

Our principal competitors include, but are not limited to, Analog Devices, Inc., Intersil Corporation, Linear Technology Corporation, National Semiconductor Corporation and Texas Instruments Inc. In addition, we expect increased competition in the future from other emerging and established companies.

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. We hold a number of patents worldwide with expiration dates ranging from 2008 to 2026.

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. We have registered several of our trademarks with the U.S. Patent and Trademark Office and in foreign

jurisdictions.

Employees

At June 28, 2008, we had 9,810 employees. At June 30, 2007 and June 24, 2006, we had 10,136 and 9,096 employees, respectively.

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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, 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.

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

You should carefully consider and evaluate the risk factors described below and those noted in Item 1 Business of this Annual Report on Form 10-K, together with all of the other information included in this Annual Report on Form 10-K. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us or that are currently deemed immaterial may also impair our business, financial condition and operating results. If any of these risks occur, our business could be materially harmed. If our business is harmed, the trading price of our common stock could decline. This Annual Report on Form 10-K contains forward-looking statements that involve risks and uncertainties.

Risks Related to the Investigation of our Historical Stock Option Practices and the Resulting Restatement of our Prior Financial Statements

In connection with our past stock option grant practices, we have been subjected to a number of ongoing shareholder lawsuits, unable to file periodic reports to the SEC on a timely basis and delisted from the NASDAQ Global Select Market (formerly the NASDAQ National Market). We have also been subject to an informal inquiry by the SEC, subject to an investigation by the U.S. Attorney for the Northern District of California (the "U.S. Attorney"), subject to an ongoing audit by the Internal Revenue Service, and required to suspend the issuance of shares upon the exercise of all of our outstanding stock options and restricted stock units ("RSUs") and purchases under our employee stock purchase program inasmuch as our Form S-8 registration statements for our equity plans are not effective because of our delinquent SEC periodic reporting. The informal SEC investigation has subsequently been settled without any admission of wrongdoing on the part of the Company and without any assessment of penalties and the U.S. Attorney subsequently informed us that its office does not intend to pursue any further investigation or action against the Company concerning our option grant practices. As a result of these events, we have been and remain subject to a number of risks, including the following, each of which could result in a material adverse effect to our business, financial condition and results of operations and/or a negative effect on the market for our stock: (i) the commencement of additional regulatory or governmental investigations relating to our restatement or option grant practices; (ii) private litigation relating to our restatement or option grant practices, including the pending or new stockholder litigation or possible litigation by option holders; (iii) currently unanticipated issues with respect to our restatement or our ability to become current in our periodic SEC reports that could materially delay our ability to permit the exercise of outstanding options and RSUs and to achieve relisting on NASDAQ or another national securities exchange, which would likely have a material adverse effect on the liquidity of our common stock and our ability to recruit and retain employees; (iv) additional significant costs in effectuating on-going or additional remedial actions or in dealing with any further litigation or unanticipated problems in attaining relisting of our shares on NASDAQ or another national securities exchange; and (v) diversion of the time and attention of members of our management and our board of directors from the management of our business.

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Dependence on New Products, Packages and Process Technologies

Our future success will continue to depend on our ability to introduce new products and to develop new packages and process technologies. Semiconductor design and package and process technologies are subject to rapid technological change, requiring a high level of expenditures for time consuming research and development. Design and package and process development for the portions of the semiconductor market in which we participate are particularly challenging. The success of new product introductions is dependent on several factors, including proper product features, timely product introduction, achievement of acceptable production test times and yields. From time to time, we have not fully achieved our new product introduction and process development goals. There can be no assurance that we will successfully develop or implement new process technologies or that new products will be introduced on a timely basis or receive sufficient market acceptance. It is difficult to predict a schedule for a new product. If a product is not developed on time or does not meet a customer's specifications, the development can be a complete failure. Additionally, we do not always have the necessary development tools, the number of engineers, product definers or business managers, skill sets or experience required in these areas, which may result in our not meeting our research and development goals. Development tools sometimes require licensing and sometimes become obsolete, which can contribute to higher research and development expenses.

Dependence on New Markets and Consumer Demand

Our growth is dependent on our continued ability to defend our existing market and penetrate new markets. We have limited experience in new markets and competition is intense. Innovation, by its nature, is dependent on applying good judgment to predict future technology trends, often based on little existing data about those new markets. There can be no assurance that the markets we serve will grow (for example, older markets do saturate and decline); that our existing and new products will meet the requirements of such markets; that our products will achieve customer acceptance in such markets; that competitors will not drive prices to an unacceptably low level or take market share from us; or that we can achieve or maintain profitability in these markets. Additionally, we have increased the emphasis on highly-integrated products in our product development plans. Such products are more vulnerable to time-to-market demands, proper new product definitions with the right set of functionalities, development execution delays and gross margin pressure. Delays in product development can significantly reduce return on investment and adversely affect our growth. In addition, highly integrated product lives are generally shorter. Shorter product lives can result in excess inventory which we would have to write down. Such write downs may materially adversely impact our results of operations.

Furthermore, changes in demand in the market could have a negative impact on certain of our products. Such change in demand and resulting restructuring of or changes in our business could lead to the closure or consolidation of facilities. This may result in additional costs which could materially adversely affect our results of operations.

Industry Standard Risks

Many of our products are based on industry standards that are continually evolving. Our ability to compete in the future will depend on our ability to identify and ensure compliance with these evolving industry standards. The emergence of new industry standards could render our products incompatible with products developed by major systems manufacturers. As a result, we could be required to invest significant time and effort and to incur significant expense to redesign our products to ensure compliance with relevant standards. If our products are not in compliance with prevailing industry standards or requirements, we could miss opportunities to achieve crucial design wins which in turn could have a material adverse effect on our business, operating and financial results.

Manufacturing Risks

The fabrication of integrated circuits is a highly complex and precise process. Minute impurities, contaminants in the manufacturing environment, difficulties in the fabrication process, defects in the masks used in the wafer manufacturing process, manufacturing equipment failures, wafer breakage, or other factors can

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cause a substantial percentage of wafers to be rejected or numerous dice on each wafer to be nonfunctional. We have from time to time experienced reliability problems and lower-than-expected production yields, which have delayed product shipments and adversely affected gross margins. There can be no assurance that we will not experience a decrease in manufacturing yields or reliability or quality problems that could expose us to liability, product returns and product warranty claims. Further, the number of shippable dice per wafer for a given product is critical to our results of operations. To the extent we do not achieve acceptable manufacturing yields or experience delays in wafer fabrication, wafer sort, assembly or final test operations, our results of operations could be adversely affected. During periods of decreased demand, fixed wafer fabrication costs could have an adverse effect on the Company's financial condition, gross margins, and results of operations.

The relatively lengthy manufacturing cycle could result in inventory imbalances. A product or inventory shortage could adversely affect our customer relations, while any excess inventory may ultimately become unsalable. The occurrence of either of such events may adversely affect our financial condition.

We manufacture most of our wafer production requirements internally. Given the nature of our products, it would be very difficult and costly to arrange for independent manufacturing facilities to supply such products. Any prolonged inability to utilize one of our manufacturing facilities as a result of fire, natural disaster, unavailability of electric power or otherwise, would have a material adverse effect on our results of operations and financial condition.

In addition, some of our current manufacturing and test equipment may become excess or obsolete over time due to changes in manufacturing or test processes, technology changes, or changes in demand for our products. Should this occur, we would be required to write down such equipment to its salvage value which could materially adversely affect our results of operations.

Competition

We experience intense competition from a number of companies, some of which have significantly greater financial, manufacturing, and marketing resources than us while others have greater technical resources and proprietary intellectual property rights than us. Our ability to compete successfully depends on factors both within and outside our control. We may be excluded from our customers' product designs because we cannot provide a complete chip set as required by the customer. There can be no assurance that competitive factors will not adversely affect our future business. To the extent that our proprietary products become more successful, competitors will offer second source products or functionally equivalent products for some of those products, which could erode our profit margins. Competitors may develop or acquire intellectual property that can control certain portions of the semiconductor market in which we compete. Our competitors could use this intellectual property to design products that compete more favorably with our products in terms of performance and pricing. Competitors could also use this intellectual property to design products that can be bundled with other products offered by the competitor and thus exclude us from competing on additional products or in other semiconductor markets. Additionally, the development or acquisition by competitors of intellectual property could prevent us from using such intellectual property in the product development process or could cause delays in such development. Certain of our product offerings are an attractive target for smaller competitors with lower gross and operating margin percentage levels than ours. These companies often target our product offerings with direct or functionally-equivalent second-sources and attempt to take market share at gross and operating margin percentage levels that are improvements to their financial performance but which would be detrimental to our objectives.

Dependence on Independent Distributors and Sales Representatives

A portion of our sales is realized through independent electronics distributors that are not under our control. These independent sales organizations generally represent product lines offered by several companies and thus could reduce their sales efforts applied to our products or terminate their representation of us. We generally

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require foreign distributors to provide a letter of credit to us in an amount equal to the credit limit set for accounts receivable from such foreign distributors. The letter of credit provides for collection on accounts receivable from the foreign distributor should the foreign distributor default on their accounts receivable to us. In limited instances, where credit limits have been established above the amount of the letter of credit, we are exposed for the difference. We do not require letters of credit from any of our domestic distributors and are not protected against accounts receivable default or bankruptcy by these distributors. The inability to collect open accounts receivable could adversely affect our results of operations and financial condition. Termination of a significant distributor, whether at our or the distributor's initiative, could be disruptive to our current business. As previously noted, in fiscal year 2008, we selected one of our distributors, Avnet, Inc., as our primary global distributor and ended our distribution arrangements with Arrow Electronics. Should we not successfully transition end customers currently purchasing product from Arrow Electronics to purchasing product from Avnet or other Company franchised distributors, such customers might begin purchasing our competitor's products. This, along with the inability to find a suitable replacement should a significant distributor or representative terminate their distributor arrangement with us, could have a material adverse impact on our operating results. Additionally, should the intended benefits from selecting Avnet as our primary global distributor not materialize, our results of operations could be adversely affected.

Dependence on Independent Foundries, Subcontractors, Thailand and Philippines Test and Shipping Facilities

We have an internal capability to fabricate most of our wafers and we remain dependent on outside silicon foundries for a portion of our wafer fabrication. None of the independent foundries currently used by us is affiliated with us. As is typical in the semiconductor industry, from time to time, we have experienced disruptions in the supply of processed wafers from these foundries due to quality problems, unsatisfactory electrical yields, capacity limitations and process obsolescence. Procurement from foundries is done by purchase order and contracts. Should our orders for purchases of integrated circuits manufactured by these silicon foundries not reflect our customers' ultimate demand for related products, we could have either excess inventory or insufficient inventory to satisfy demand. Excess inventory would result in an inventory write off that could materially adversely affect our results of operations. Too little inventory would prevent us from meeting customer demand and could potentially damage customer relationships and future revenue growth from these customers.

We rely on assembly subcontractors located in the Philippines, Malaysia, Thailand, China, Singapore, Taiwan and South Korea to separate wafers into individual integrated circuits and to package them. None of the assembly subcontractors we currently use is affiliated with us. Reliability problems experienced by our assemblers or the inability to replace an assembly subcontractor could cause serious problems in delivery and quality resulting in potential product liability to us. Such problems could impair our ability to meet our revenue plan in the fiscal period impacted by the disruption. Failure to meet the revenue plan may materially adversely impact our results of operations.

We perform substantially all of our final testing at our facilities in the Philippines and Thailand. Any prolonged inability to utilize one of our testing facilities as a result of fire, natural disaster, political instability, unavailability of electric power or otherwise, would have a material adverse effect on our results of operations and financial condition.

In fiscal year 2009, we plan to reduce our wafer sort, final test, and shipping operations in all of our domestic-based facilities in order to reduce manufacturing costs. This production will be transferred to our manufacturing facilities located in Cavite, the Philippines or Chonburi Province, Thailand. Products currently produced at our domestic facilities have a high technical content and are more difficult to manufacture than the products currently tested in our offshore facilities. Failure to successfully transfer manufacturing of these products to our offshore facilities may result in reduced yields and unsatisfactory quality. Failure to successfully transfer this manufacturing to our offshore facilities may adversely affect our ability to supply products to our customers which could materially adversely impact our results of operations.

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As previously noted, the majority of our finished products currently ship directly from Cavite, the Philippines or Chonburi Province, Thailand to our customers worldwide or to other Maxim locations for sale to end customers or distributors. Should there be disruption for any reason to either of our shipping operations in Cavite, the Philippines or Chonburi Province, Thailand, we might not be able to meet our revenue plan in the fiscal period impacted by the disruption. Failure to meet the revenue plan may materially adversely impact our results of operations.

We currently expect that in fiscal year 2009 we will need to add additional sort and final test capacity to meet customer demand. In the past, we have generally met increased sort and final test capacity requirements by constructing additional manufacturing space; however, in fiscal year 2009, we also anticipate to enter into outsourcing agreements with major assembly and test subcontractors in Asia. Failure to expand manufacturing space or negotiate an acceptable contract with a suitable subcontractor could result in increased manufacturing costs. Additionally, such failure may result in insufficient internal manufacturing capacity. Given the complexity of our wafer sort and final test operations, it may be difficult to transfer production to a third party without suffering yield, quality, or delivery problems. Failure of the subcontractor to perform satisfactorily may adversely affect our costs and our ability to supply products to our customers which could materially adversely impact our results of operations.

Any disruptions in our sort, assembly, test or shipping operations or in the operations of our manufacturing subcontractors, including, but not limited to, the inability or unwillingness of any of our these subcontractors to produce adequate supplies of processed wafers, integrated circuit packages or tested product conforming to our quality standards or their inability to provide timely delivery of products or services required by us, could adversely affect the continuity of product supply as well as damage our reputation, relationship and goodwill with affected customers. This, in turn, could have a material adverse effect on our results of operations. Furthermore, finding alternate sources of supply or initiating internal wafer processing for these products may not be economically feasible.

Availability and Quality of Materials, Supplies, and Subcontract Services

The semiconductor industry has experienced a very large expansion of fabrication capacity and production worldwide over time. As a result of increasing demand from semiconductor, solar and other manufacturers, availability of certain basic materials and supplies, such as raw wafers and silicon on insulator wafers, chemicals, gases, polysilicon, silicon wafers, ultra-pure metals, lead frames and molding compounds, and of subcontract services, like epitaxial growth, ion implantation and assembly of integrated circuits into packages, has been limited from time to time over the past several years, and could come into short supply again if overall industry demand exceeds the supply of these materials and services in the future.

We purchase materials and supplies from many suppliers, some of which are sole-sourced. If the availability of these materials and supplies is interrupted, we may not be able to find suitable replacements. In addition, from time to time natural disasters can lead to a shortage of some of the above materials due to disruption of the manufacturer's production. We devote continuous efforts to maintain availability of all required materials, supplies and subcontract services. However, we do not have long-term agreements providing for all of these materials, supplies and services, and shortages could occur as a result of capacity limitations or production constraints on suppliers that could have a material adverse effect on our ability to achieve our planned production.

A number of our products, including nonvolatile Static Random Access Memory products (SRAMs), real time clocks, and iButton products use components such as memory circuits, batteries, PC boards and crystals that are purchased from third parties. We anticipate that, from time to time, supplies of these components may not be sufficient to meet all customer requested delivery dates for products containing the components. As a result of any such shortages, future sales and earnings from products using these components could be adversely affected. Additionally, significant fluctuations in the purchase price for these components could affect gross

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margins for the products involved. Suppliers could also discontinue the manufacture of such purchased products or could have quality problems that could affect our ability to meet customer commitments.

Quality problems experienced by suppliers may be impossible to reproduce or detect in a controlled environment, or may not be detected by our quality control procedures. Should undetected quality problems occur, such defects may become part of our finished product ultimately sold to customers. If such defects cause quality control problems in the manufacture of customers' end-products or cause direct or indirect damages to either our customers or the ultimate end-user, we may be liable for our customers' increased production costs and both direct and indirect damages caused by the defective product. Such liability could have a material adverse impact on our results of operations and financial condition.

In addition, suppliers of semiconductor manufacturing equipment are sometimes unable to deliver test and/or wafer fabrication equipment to a schedule or equipment performance specification that meets our requirements. Delays in delivery of equipment could adversely affect our ability to achieve our manufacturing and revenue plans in the future.

Environmental Regulation

Various foreign and United States federal, state, and local government agencies impose a variety of environmental regulations on the storage, handling, use, discharge and disposal of certain chemicals, gases and other substances used or produced in the semiconductor manufacturing process. There can be no assurance, however, that interpretation and enforcement of current or future environmental regulations will not impose costly requirements upon us. Any failure by us to not adequately control the storage, handling, use, discharge or disposal of regulated substances could result in fines, suspension of production, alteration of wafer fabrication processes and legal liability, which may materially adversely impact our financial condition, results of operations or liquidity.

Increasing public attention has been focused on the environmental impact of electronic manufacturing operations and waste electronic equipment. While we to date have not experienced any material adverse effects on our business from environmental regulations, there can be no assurance that changes in such regulations will not have a material adverse effect on our financial condition or results of operations. Possible effects include, but are not limited to, making costly changes to manufacturing, waste discharge or disposal processes and purchasing higher cost equipment or materials.

In 2003, the European Union (EU) adopted mandatory restrictions on the use of certain hazardous substances including, but not limited to, cadmium, lead and mercury. The deadline to comply with these restrictions was July 1, 2006. Other countries, including those in Asia, have adopted voluntary programs or are considering legislation to restrict or prohibit the use of certain hazardous substances. We also anticipate that more stringent environmental rules and regulations will come in effect in the future. We have transitioned the manufacturing process of most of our products to eliminate the use of these hazardous substances which are currently prohibited. However, some of our products may still contain lead and other prohibited hazardous substances which continue to be sold under certain authorized exemptions. If our products do not meet the EU's or our customer's restriction on the use of certain hazardous substances or similar restrictions by other countries which may enact such legislation, it would preclude us from selling products containing these substances to customers in these affected locations, and our customers will find alternate suppliers. This could materially impact our results of operations and financial condition. Additionally, we still maintain products in our inventory which contain these substances based on forecasted demand from certain customers. We periodically write off any quantities of such products that are in excess of forecasted demand. Should we be unable to sell any such products remaining in our inventory to locations or customers which do not have such restrictions or if customers revise purchase orders to reduce order quantities of products containing lead and other hazardous substances, we would have to write such inventory off as obsolete. This could materially adversely impact our results of operations. In addition to the above, should we ship product with restrictions on the use of certain hazardous

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substances into countries which prohibit such substances, we may be subject to fines from government authorities and damage claims from customers. Such fines and damage claims could materially adversely impact our results of operations.

In addition, should we be required to use additional outside subcontractors, due to any environmental restrictions on certain of our products, there can be no guarantee that we would be able to locate an acceptable vendor or successfully transfer the manufacturing of the products containing hazardous substances once an acceptable vendor were located. Our inability to locate an acceptable vendor or effectively transfer production could have a material adverse effect on our results of operations.

Protection of Proprietary Information and Intellectual Property Indemnification

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, reverse engineer our products or that the confidentiality agreements upon which we rely will be adequate to protect our interests. Moreover, the laws of foreign countries generally do not protect proprietary rights to the same extent as the United States, and we may encounter problems in protecting our proprietary rights in those foreign countries. Other companies have obtained patents covering a variety of semiconductor designs and processes, and we might be required to obtain licenses under some of these patents or be precluded from making and selling the infringing products, if these patents are found to be valid. There can be no assurance that we would be able to obtain licenses, if required, upon commercially reasonable terms or at all.

From time to time, we have received, and in the future may receive, notice of claims of infringement by our products on intellectual property rights of third parties. If one or more of our products or processes were determined to infringe on any such intellectual property rights of a third party, a court might enjoin us from further manufacture and/or sale of the affected products. We would then need to obtain a license from the holders of the rights and/or to re-engineer our products or processes in such a way as to avoid the alleged infringement. In the past, it has been common in the semiconductor industry for patent holders to offer licenses on reasonable terms and rates. Although the practice of offering licenses appears to be generally continuing, in some situations, typically where the patent directly relates to a specific product or family of products, patent holders have refused to grant licenses. In any of those cases, there can be no assurance that we would be able to obtain any necessary license on commercially reasonable terms acceptable to us or at all or that we would be able to re-engineer our products or processes to avoid infringement. An adverse result in litigation arising from such a claim could involve an injunction to prevent the sales of a material portion of our products, the reduction or elimination of the value of related inventories and the assessment of a substantial monetary award for damages related to past sales, all of which could have a material adverse effect on our results of operations and financial condition.

We provide intellectual property indemnification for certain customers, distributors, suppliers and subcontractors for attorney fees and damages and costs awarded against these parties in certain circumstances in which our products are alleged to infringe third party intellectual property rights, including patents, registered trademarks and copyrights. In certain cases, there are limits on and exceptions to our potential liability for indemnification relating to intellectual property infringement claims. We cannot estimate the amount of potential future payments, if any, that we might be required to make as a result of these agreements. To date, we have not been required to pay significant amounts for intellectual property indemnification claims. However, there can be no assurance that we will not have significant financial exposure under those intellectual property indemnification obligations.

Enterprise Resource Planning System

We currently expect to implement a new enterprise resource planning (ERP) system as part of our ongoing efforts to improve and strengthen our operational and financial processes and our reporting systems. Any difficulties encountered in the implementation or operation of our new ERP system or any difficulties in the

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operation of our current ERP system could cause us to fail to meet customer demand for our product or could delay our ability to meet our financial reporting obligations which, in turn, could materially adversely affect our results of operations.

Global Economic and Political Conditions

Our business is increasingly dependent on the global economy. Any global events impacting the world economy or specific regions of the world, such as political instability or terrorist activity, could impact economic activity which, in turn, could lead to a contraction of customer demand or a disruption in our operations. In the past, our assembly contractors in Malaysia, South Korea, Thailand and the Philippines have been impacted by political disorders, labor disruptions, criminal activities and natural disasters. We have been affected by these problems in the past and none has materially affected our results of operations to date. However, similar 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. The occurrence of political conflicts or economic crises in countries where our sort, assembly, test, shipping operations and manufacturing subcontractors or distribution channels or customers are located could materially adversely affect our financial condition and results of operations.

Natural Disasters

We operate our business in worldwide locations. Our facilities in California, which include our corporate, research and manufacturing facilities, are in close proximity to known earthquake fault zones. In addition, our locations in Southeast Asia are susceptible to damage from earthquakes, tsunamis and other natural disasters. In the event of a natural disaster, we may suffer a disruption in our operations which could adversely affect our results of operations.

Insurance

We are primarily self-insured with respect to most of our risks and exposures. Based on management's assessment and judgment, we have determined that it is generally more cost effective to self-insure these risks. The risks and exposures we self-insure include, but are not limited to, fire, property and casualty, natural disasters, product defects, political risk, general liability, theft, counterfeits, patent infringement, certain employment practice matters and medical benefits for the vast majority of our domestic (United States) employees. We also maintain insurance contracts with independent insurance companies that provide certain of our employees with health (medical and dental) benefits, workers compensation coverage, long-term disability income coverage, life insurance coverage and fiduciary insurance coverage for employee and Company funds invested under the Employee Retirement Income and Security Act. In addition, we maintain officer and director liability coverage and certain property insurance contracts with independent insurance companies. Should there be catastrophic loss from events such as fires, explosions or earthquakes or other natural disasters, among many other risks, or adverse court or similar decisions in any area in which we are self-insured, our financial condition, results of operations and liquidity may be materially adversely affected.

Product Liability

We warrant our products to our customers generally for one year from the date of shipment, but in certain cases for longer periods. Warranty expense to date has been minimal. In certain cases, which are becoming more commonplace, our product warranty may include significant financial responsibility beyond the cost of replacing the product. In the event that significant warranty claims in excess of historical levels are incurred, our results of operations could be materially adversely impacted.

We face an inherent risk of exposure to product liability suits in connection with reliability problems which may be experienced by our customers. Our products are used by varying industries which include the automotive

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and medical industries. Failure of our products to perform to specifications could lead to substantial damage to both the end product in which our device has been placed and to the user of such end product. If a product liability claim is brought against us, the cost of defending the claim could be significant and any adverse determination could have a material adverse effect on our results of operations.

We manufacture and sell products into many global jurisdictions where our efforts to contractually limit liability for certain damages, including consequential, indirect and non-proximately caused damages may not be enforceable or may found by a court to not apply in a particular situation. As we continue to partner with certain customers we may be required to accept increasing exposure for liability including product liability. We believe these relationships with key customers will continue to increase. We continue to attempt to structure our relationships to reduce such liability exposures. Additionally, we attempt to mitigate these exposures through our Quality Assurance developing and maintaining closer working relationships with our critical customers. Claims for damages arising in such liability claims could materially impact the Company financially. Should we choose to not enter such relationships, our revenues and financial operations could be materially affected.

Customer Supply Agreements

We enter into contracts with certain customers whereby we commit to supply quantities of specified parts at a predetermined scheduled delivery date. The number of such arrangements continues to increase as this practice becomes more commonplace. Should we be unable to supply the customer with the specific part at the quantity and product quality desired on the scheduled delivery date, the customer may incur additional production costs. In addition, the customer may incur lost revenues due to a delay in receiving the parts necessary to have the end-product ready for sale to its customers or due to product quality issues which may arise. Under the customer supply agreements, we may be liable for direct additional production costs or lost revenues. If products were not shipped on time or were quality deficient, we may be liable for resulting damages. Such liability, should it arise, and/or our inability to meet these commitments to our customers may have a material adverse impact on our results of operations and financial condition and would damage our relationship, reputation and goodwill with the affected customers.

Vendor Managed Inventory

We enter into arrangements with certain original equipment manufacturers (OEMs) and Electronic Manufacturing Services (EMS) partners to consign quantities of certain products within close proximity of the OEMs and EMS partners' manufacturing location. The inventory is physically segregated at these locations and we retain title and risk of loss related to this inventory until such time as the OEM or EMS partner pulls the inventory for use in their manufacturing process. Once the inventory is pulled by the OEM or EMS partner, title and risk of loss pass to the customer, at which point we relieve inventory, recognize revenue and the related cost of goods sold. The specific quantities to be consigned are based on a forecast provided by the OEM or EMS partner. Generally, the arrangements with the OEMs and EMS partners provide for transfer of title and risk of loss once product has been consigned for a certain length of time.

We believe these arrangements will continue to grow in terms of number of customers and products and will increase in proportion to consolidated net revenues. It is our belief that revenues from such arrangement will eventually become significant to consolidated net revenues. Should we be unable or unwilling to enter into such agreements as requested by OEMs or EMS partners, our results of operations may be materially adversely impacted. Should we be unable to supply the specific product and quantity needed by the OEM or EMS partner as reflected in their forecast, we may be liable for damages, including but not limited to, lost revenues and increased production costs which could have a material adverse impact on our results of operations and financial condition. Should we supply product in excess of the OEMs or EMS partners actual usage, any inventory not consumed may become excess or obsolete which would result in an inventory write off that could materially adversely affect our results of operations.

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Volatility of Stock Price

The market price of our common stock has fluctuated significantly. In the future, the market price of our common stock could be subject to significant fluctuations due to general economic and market conditions and in response to quarter-to-quarter variations including but not limited to the following:

our anticipated or actual result of operations;

announcements or introductions of new products by us or our competitors;

anticipated or actual operating results of our customers, peers or competitors;

technological innovations or setbacks by us or our competitors;

conditions in our four major markets;

the commencement or outcome of litigation or governmental investigations;

change in ratings and estimates of our performance by securities analysts;

announcements of merger or acquisition transactions;

announcement of a transaction in which employees may exchange their under-water stock options for new equity, cash or a combination of new equity or cash;

dividend changes;

changes in our capital structure, including any decision we make in regard to the repurchase of our common stock;

management changes;

our inclusion in certain stock indices;