

ANALOG DEVICES INC
Form PRE 14A
June 04, 2009

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**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**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, For Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to § 240.14a-12

Analog Devices, 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):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

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(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

Fee paid previously with preliminary materials.

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount previously paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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**ANALOG DEVICES, INC.
ONE TECHNOLOGY WAY
NORWOOD, MASSACHUSETTS 02062-9106**

**NOTICE OF SPECIAL MEETING OF SHAREHOLDERS
To Be Held On July 20, 2009**

To our Shareholders:

This Special Meeting of Shareholders of Analog Devices, Inc. will be held at our headquarters at Three Technology Way, Norwood, Massachusetts 02062, on July 20, 2009 at 10:00 a.m. local time. At the meeting, shareholders will consider a proposal to approve an employee stock option exchange program.

Shareholders of record at the close of business on June 4, 2009 are entitled to vote at the meeting. Your vote is important no matter how many shares you own. Whether you expect to attend the meeting or not, please vote your shares over the Internet or by telephone in accordance with the instructions set forth on the proxy card, or complete, sign, date and promptly return the enclosed proxy card in the postage-prepaid envelope we have provided. Your prompt response is necessary to ensure that your shares are represented at the meeting. You can change your vote and revoke your proxy at any time before the polls close at the meeting by following the procedures described in the accompanying proxy statement.

All shareholders are cordially invited to attend the meeting.

By order of the Board of Directors,

MARGARET K. SEIF
Secretary

Norwood, Massachusetts
June , 2009

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**ANALOG DEVICES, INC.
ONE TECHNOLOGY WAY
NORWOOD, MASSACHUSETTS 02062-9106**

**PROXY STATEMENT FOR SPECIAL MEETING OF SHAREHOLDERS
July 20, 2009**

This proxy statement contains information about a Special Meeting of Shareholders of Analog Devices, Inc. The meeting will be held on July 20, 2009, beginning at 10:00 a.m. local time, at our headquarters at Three Technology Way, Norwood, Massachusetts 02062. You may obtain directions to the location of the special meeting by visiting our website at www.analog.com or by contacting Mindy Kohl, Director, Investor Relations, Analog Devices, Inc., One Technology Way, Norwood, MA 02062; telephone: 781-461-3282.

This proxy statement is furnished in connection with the solicitation of proxies by the Board of Directors of Analog Devices, Inc., which is also referred to as Analog Devices, ADI, or the Company in this proxy statement, for use at this special meeting and at any adjournment of that meeting. All proxies will be voted in accordance with the instructions they contain. If you do not specify your voting instructions on your proxy, it will be voted in accordance with the recommendation of the Board of Directors. You may revoke your proxy at any time before it is exercised at the meeting by giving our secretary written notice to that effect.

These proxy materials are being mailed to shareholders on or about June , 2009.

Important Notice Regarding the Availability of Proxy Materials for the Special Meeting of Shareholders to be Held on July 20, 2009:

This proxy statement is available for viewing, printing and downloading at www.analog.com/SpecialMeeting2009.

INFORMATION ABOUT THE SPECIAL MEETING AND VOTING

What is the purpose of the special meeting?

At this special meeting, shareholders will consider and vote on a proposal to approve an employee stock option exchange program.

Who can vote?

To be able to vote, you must have been an Analog Devices shareholder of record at the close of business on June 4, 2009. This date is the record date for the special meeting. If the shares you own are held in street name by a bank or brokerage firm, your bank or brokerage firm, as the record holder of your shares, is required to vote your shares according to your instructions.

Shareholders of record at the close of business on June 4, 2009 are entitled to vote on the option exchange proposal at the special meeting. The number of outstanding shares entitled to vote at the meeting is _____ shares of our common stock.

How many votes do I have?

Each share of our common stock that you owned on the record date entitles you to one vote on the option exchange proposal.

Is my vote important?

Your vote is important no matter how many shares you own. Please take the time to vote. Take a moment to read the instructions below. Choose the way to vote that is easiest and most convenient for you and cast your vote as soon as possible.

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How do I vote?

If you are the record holder of your shares, meaning that you own your shares in your own name and not through a bank or brokerage firm, you may vote in one of four ways.

- (1) *You may vote over the Internet.* If you have Internet access, you may vote your shares from any location in the world by following the *Vote by Internet* instructions on the enclosed proxy card.
- (2) *You may vote by telephone.* You may vote your shares by following the *Vote by Telephone* instructions on the enclosed proxy card.
- (3) *You may vote by mail.* You may vote by completing and signing the proxy card enclosed with this proxy statement and promptly mailing it in the enclosed postage-prepaid envelope. You do not need to put a stamp on the enclosed envelope if you mail it in the United States. The shares you own will be voted according to your instructions on the proxy card you mail. If you return the proxy card, but do not give any instructions on a particular matter described in this proxy statement, the shares you own will be voted in accordance with the recommendations of our Board of Directors.
- (4) *You may vote in person.* If you attend the meeting, you may vote by delivering your completed proxy card in person or you may vote by completing a ballot. Ballots will be available at the meeting.

The Board of Directors recommends that you vote FOR the option exchange proposal. If your share are held in street name by a bank or brokerage firm, your bank or brokerage firm, as the record holder of your shares, is required to vote your shares according to your instructions. See **Can I vote if my shares are held in street name ?** below.

Can I change my vote after I have mailed my proxy card or after I have voted my shares over the Internet or by telephone?

Yes. You can change your vote and revoke your proxy at any time before the polls close at the meeting by doing any one of the following things:

- mailing another proxy card with a later date;
- voting again by phone or over the Internet;
- giving our secretary a written notice before or at the meeting that you want to revoke your proxy; or
- voting in person at the meeting.

Your attendance at the meeting alone will not revoke your proxy.

Can I vote if my shares are held in street name ?

If the shares you own are held in street name by a bank or brokerage firm, your bank or brokerage firm, as the record holder of your shares, is required to vote your shares according to your instructions. In order to vote your shares, you will need to follow the directions your bank or brokerage firm provides you. Many banks and brokerage firms also offer the option of voting over the Internet or by telephone, so you should review the vote instruction form sent to you

by your bank or brokerage firm to find a method of providing your voting instructions that is convenient for you.

Under rules of the New York Stock Exchange, or NYSE, if you do not give instructions to your bank or brokerage firm, it will not be allowed to vote your shares on the option exchange proposal because it is a non-discretionary matter. **If you do not instruct your bank or broker how to vote your shares on the option exchange proposal, your bank or broker will not be allowed to vote your shares, and those votes will be counted as broker non-votes.**

If the shares you own are held in street name and you wish to vote in person at the meeting, you must bring an account statement or letter from your bank or brokerage firm showing that you are the beneficial owner of the shares as of the record date (June 4, 2009) in order to be admitted to the meeting on July 20,

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2009. To be able to vote your shares held in street name at the meeting, you will need to obtain a proxy card from the holder of record of those shares.

How do I vote my 401(k) shares?

If you participate in the Analog Devices Stock Fund through The Investment Partnership Plan of Analog Devices, or TIP, your proxy will also serve as a voting instruction for Fidelity Management Trust Company, or Fidelity, which serves as the administrator of TIP, with respect to shares of ADI common stock attributable to your TIP account, or TIP shares, as of the record date. You should sign the proxy card and return it in the enclosed envelope to Broadridge Financial Solutions, Inc., or you may submit your proxy over the Internet or by telephone by following the instructions on the enclosed card. Broadridge will notify Fidelity of the manner in which you have directed your TIP shares to be voted. Fidelity will vote your TIP shares as of the record date in the manner that you direct. If Broadridge does not receive your voting instructions from you by 11:59 p.m. eastern time on July 15, 2009, Fidelity will vote your TIP shares as of the record date in the same manner, proportionally, as it votes the other shares of common stock for which proper and timely voting instructions of other TIP participants have been received by Fidelity.

How do I vote my shares held in trust in the Analog Ireland Success Sharing Share Plan?

If you participate in the Analog Ireland Success Sharing Share Plan (the Ireland share plan), you may instruct Irish Pensions Trust Limited, which serves as the trustee of the Ireland share plan, to vote the amount of shares of common stock which they hold on your behalf as of the record date. Mercer Trustees Limited (Mercer), which administers the Irish share plan on behalf of Irish Pensions Trust Limited, will send you a voting card that you may use to direct Mercer how to vote your shares. You should sign the voting card and return it to Mercer in the envelope that Mercer provides. Mercer will vote the shares in the manner that you direct on the voting card. If Mercer does not receive your voting card by 5:00 p.m. Greenwich Mean Time (GMT) on July 13, 2009, Mercer will not vote your shares.

What constitutes a quorum ?

For the option exchange proposal at the special meeting, a quorum consists of the holders of a majority of the shares of common stock issued and outstanding on June 4, 2009, the record date, or at least shares. A quorum of voting shares must be present in person or represented by valid proxies in order for business to be conducted at the meeting.

Shares of common stock represented in person or by proxy (including broker non-votes and shares that abstain or do not vote with respect to the option exchange proposal) will be counted for the purpose of determining whether a quorum exists at the meeting. Broker non-votes are shares that are held in street name by a bank or brokerage firm that indicates on its proxy that it does not have or did not exercise discretionary authority to vote on a particular matter.

If a quorum is not present, the meeting may be adjourned until a quorum is obtained.

What vote is required to approve the stock option exchange program?

Approval of the option exchange proposal requires (1) that a majority of common stock issued, outstanding and entitled to vote at the meeting must actually vote on the proposal (with votes cast in favor of the proposal, against the proposal and abstentions all counted as voting on the proposal and broker non-votes not counted as voting on the proposal) and (2) votes cast in favor must be at least a majority of those voting overall. As a result, broker non-votes are not counted as voting, which could impair our ability to satisfy the initial voting requirement, and abstentions have the effect of a vote against the option exchange proposal.

How will votes be counted?

Each share of common stock will be counted as one vote according to the instructions contained on a proper proxy card, whether submitted in person, by mail, over the Internet or by telephone, or on a ballot

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voted in person at the meeting. With respect to the option exchange proposal, under our By-laws, shares will not be voted for the proposal, and will not be counted as voting on the matter, if they either (1) abstain from voting on the proposal, or (2) are broker non-votes. Brokers do not have discretionary authority to vote shares on this proposal without direction from the beneficial owner. Under NYSE rules, votes cast in favor of the proposal, against the proposal and abstentions all count as voting on the proposal and broker non-votes do not count as voting on the proposal.

Who will count the votes?

The votes will be counted, tabulated and certified by Broadridge Financial Solutions, Inc., which will act as the inspector of elections for the special meeting.

Will my vote be kept confidential?

Yes, your vote will be kept confidential and we will not disclose your vote, unless we are required to do so by law (including in connection with the pursuit or defense of a legal or administrative action or proceeding). The inspector of elections will forward any written comments that you make on the proxy card to management without providing your name, unless you expressly request disclosure on your proxy card.

How does the Board of Directors recommend that I vote on the proposal?

The Board of Directors recommends that you vote FOR the proposal to approve the proposed employee stock option exchange program.

Will any other business be conducted at the meeting or will other matters be voted on?

No. Under Massachusetts law, where we are incorporated, an item may not be brought before our shareholders at a special meeting unless it appears in the notice of the special meeting.

Where can I find the voting results?

We will report the preliminary voting results at the special meeting and will report the voting results in our quarterly report on Form 10-Q for the third quarter of fiscal 2009, which we expect to file with the Securities and Exchange Commission in August 2009.

How and when may I submit a shareholder proposal, including a shareholder nomination for director, for the 2010 annual meeting?

If you are interested in submitting a proposal for inclusion in the proxy statement for the 2010 annual meeting, you need to follow the procedures outlined in Rule 14a-8 of the Securities Exchange Act of 1934, or the Exchange Act. To be eligible for inclusion, we must receive your shareholder proposal for our proxy statement for the 2010 annual meeting of shareholders at our principal corporate offices in Norwood, Massachusetts at the address below no later than October 7, 2009.

Our amended and restated By-laws require that we be given advance written notice of shareholder nominations for election to our Board of Directors and of other matters that shareholders wish to present for action at an annual meeting of shareholders (other than matters included in our proxy materials in accordance with Rule 14a-8 under the Exchange Act). Our secretary must receive such notice at the address noted below not less than 90 days or more than 120 days before the first anniversary of the preceding year's annual meeting. However, if the date of our annual

meeting is advanced by more than 20 days, or delayed by more than 60 days, from the anniversary date, then we must receive such notice at the address noted below not earlier than the 120th day before such annual meeting and not later than the close of business on the later of (1) the 90th day before such annual meeting or (2) the seventh day after the day on which notice of the meeting date was mailed or public disclosure was made, whichever occurs first. Assuming that the 2010 annual meeting is not advanced by more than 20 days nor delayed by more than 60 days from the anniversary date of the 2009 annual meeting, you will need to give us appropriate notice at the address noted below no

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earlier than November 10, 2009, and no later than December 10, 2009. If a shareholder does not provide timely notice of a nomination or proposal to be presented at the 2010 annual meeting, the proxies designated by our Board of Directors will have discretionary authority to vote on any such proposal which may come before the meeting. Under Massachusetts law, an item may not be brought before our shareholders at a meeting unless it appears in the notice of the meeting.

Our amended and restated By-laws also specify requirements relating to the content of the notice that shareholders must provide to the Secretary of Analog Devices for any matter, including a shareholder proposal or nomination for director, to be properly presented at a shareholder meeting. A copy of the full text of our amended and restated By-laws is on file with the Securities and Exchange Commission.

Any proposals, nominations or notices should be sent to:

Secretary, Analog Devices, Inc.
Analog Devices, Inc.
One Technology Way
Norwood, MA 02062
Phone: 781-461-3367
Fax: 781-461-3491
Email: margaret.seif@analog.com

What are the costs of soliciting these proxies?

We will bear the costs of solicitation of proxies. We have engaged The Altman Group, Inc. to assist us with the solicitation of proxies and expect to pay The Altman Group no more than \$10,000 for their services. In addition to solicitations by mail, The Altman Group and our directors, officers and regular employees may solicit proxies by telephone, email and personal interviews without additional remuneration. We will request brokers, custodians and fiduciaries to forward proxy soliciting material to the owners of shares of our common stock that they hold in their names. We will reimburse banks and brokers for their reasonable out-of-pocket expenses incurred in connection with the distribution of our proxy materials.

Whom should I contact if I have any questions?

If you have any questions about the special meeting or your ownership of our common stock, please contact Mindy Kohl, our director of investor relations, at the address, telephone number or email address listed below:

Director, Investor Relations
Analog Devices, Inc.
One Technology Way
Norwood, MA 02062
Phone: 781-461-3282
Fax: 781-461-3491
Email: investor.relations@analog.com.

PROPOSAL: APPROVAL OF AN EMPLOYEE STOCK OPTION EXCHANGE PROGRAM

The Board of Directors is requesting that our shareholders approve an employee stock option exchange program, or the Option Exchange. If approved, under the Option Exchange employees of Analog Devices (but not our directors or named executive officers) will be given the opportunity to exchange stock options with an exercise price above our

52-week high for new stock options that have approximately the same fair value as the surrendered options. The new options will be exercisable for a lesser number of shares of our common stock and will have a lower exercise price.

The Board believes that the Option Exchange is in the best interest of shareholders and Analog Devices, as the exchange program will reduce our overhang of awards with exercise prices above our recent stock

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prices, which we believe no longer meet the motivational and incentive objectives of our stock option program. We expect the new options granted under the Option Exchange to provide the incentives intended by the original award grants, to motivate eligible employees to achieve future stock price growth and to create additional retention incentives for our participating employees.

We are asking for our shareholders to approve the Option Exchange in order to satisfy the terms of our stock plans and NYSE rules, and as a matter of good corporate governance. If our shareholders approve this proposal for the Option Exchange, our Board currently expects to commence the program in August 2009 (and in no event later than 12 months after we receive shareholder approval). If our shareholders do not approve this proposal, the Option Exchange will not take place.

Background

Analog Devices has successfully used stock options to attract and retain employees since we were founded more than 40 years ago. In order to facilitate the objective of attracting and retaining valuable talent, we historically granted options to broad segments of our employees, especially engineers. Historically, we have generally distributed approximately 95% our annual option grants to employees who are not named executive officers (who are our president and chief executive officer, our chief financial officer and our three other highest paid executive officers, as listed in the executive compensation section of the proxy statement for our 2009 annual meeting, which is included as Appendix A of this proxy statement). We believe that our stock option program has been very successful throughout Analog's history in both motivating employees and enhancing shareholder value.

However, the price of our common stock, along with that of other technology companies, has been significantly affected by the worldwide economic downturn. Our revenue has declined due to demand and inventory contraction across the supply chain in multiple markets. To meet the challenges of this environment, we have taken steps to reduce our spending, including concentrating our investments on core technologies, constraining inventory growth and consolidating certain of our manufacturing operations. Current economic uncertainties make it difficult to accurately forecast our future business activities, and so we have no assurance that our stock price will increase to historic prices in the near-term, if at all. At the same time, our management is working to position the company to capitalize on the opportunities that we expect will emerge when the downturn reverses. We consider our employees to be key components in our drive to enhance our competitive position and to prepare for future success. Many of our employees are engineers, scientists, and other specialists who are working on multi-year projects or have skills that they have developed over the years and would be difficult to replace. We believe that the Option Exchange will help us retain key employees through the downturn and as markets improve.

As of May 2, 2009, the end of our fiscal second quarter, more than 70 million shares were subject to outstanding options. These stock options cannot be sold; once vested, they allow the holder to voluntarily purchase the underlying shares at the set exercise price, which only provides value to the holder if the exercise price is lower than the market price of our common stock at the time of exercise. If they are not exercised, the stock options expire without providing any economic benefit or equity to the holder. As of the end of our fiscal second quarter, 99.98% of our options were underwater, meaning they had an exercise price above our current market price, and employees may perceive them to have little or no economic value. This means a significant number of our stock options are not currently effective as incentives to retain employees.

Our equity compensation program plays a key role in our efforts to align our customer, shareholder and employee interests. Our Board believes that the Option Exchange will reinvigorate our stock option program and allow us to recapture its key incentivizing and retention benefits.

Rationale for the Option Exchange

We believe that the Option Exchange is important because it will permit us to improve the effectiveness of our equity compensation program by increasing the benefits to eligible participants, reducing the overhang

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of outstanding stock options and recapturing value from compensation costs we are already incurring with respect to underwater options. More specifically, we hope the Option Exchange will:

Provide the long-term financial incentives originally intended by options to our employees who participate in the Option Exchange. As of May 2, 2009, approximately 99.98% of our outstanding stock options were underwater. These stock options do not currently provide meaningful incentive or retention value to our employees. The Option Exchange will allow eligible employees to exchange certain of their options for a new award, with an exercise price more consistent with current market prices. In addition, these new options will have a renewed vesting schedule, ranging from one year to three years, which we expect will allow us to recapture the retention feature of our long-term equity compensation program. Our overall success depends in part on our ability to continue to attract, motivate and retain qualified employees, particularly those highly-skilled design, process, test and applications engineers involved in the design, support and manufacture of our new and existing products and processes. The competition for such personnel is intense, and the loss of key personnel could impact our financial results and shareholder value. We believe the Option Exchange will enable us to retain experienced and productive employees by improving the morale of our employees generally and increasing the retention value of our awards. We also believe the Option Exchange will better align the interests of our employees with the interests of our shareholders.

Meaningfully reduce the total number of outstanding stock options, or overhang, represented by outstanding options that have high exercise prices and may no longer provide adequate incentives to our employees. These underwater stock options currently create an equity award overhang to our shareholders of approximately 41 million shares (based on the \$21.15 closing price of our common stock on May 2, 2009). As of that date, the total number of shares of Analog common stock outstanding was 291,249,011 million. The table below provides additional details about these outstanding options. Although a portion of these stock options are not likely to be exercised, the stock options will remain on our books with the potential to dilute shareholders interests for up to 10 years from their grant date.

Shares available for future grant under existing plans	14,274,012
Shares issuable pursuant to outstanding stock options	72,831,514
Weighted average exercise price of all outstanding stock options	\$ 35.29
Weighted average remaining term of all outstanding stock options	4.8 years

We do not believe it serves the interests of our shareholders to keep these underwater options outstanding. Assuming that all eligible options are exchanged, we estimate that the number of shares under outstanding options could be reduced by approximately 27 million, based on the exchange ratios provided as examples in this proxy statement. By replacing the eligible options with options for a lesser number of shares with a lower exercise price, our overhang will be decreased. The overhang represented by the options granted pursuant to the Option Exchange will reflect a more appropriate balance between our goals for our stock option program and our interest in minimizing the dilution of our shareholders interests.

Recapture value from compensation costs that we are already incurring with respect to outstanding underwater stock options. These options were granted at the then fair market value of our common stock. Under applicable accounting rules, as of the beginning of our fiscal third quarter, we have recognized or will have to recognize a total of approximately \$181 million in compensation expense related to the underwater options included in the Option Exchange, \$129 million of which has already been expensed as of the end of our second quarter of fiscal 2009 and \$52 million of which we will continue to be obligated to expense, even if these options are never exercised because they remain underwater. We do not believe that it is an efficient use of our resources to recognize compensation expense on options that are not considered to provide value to our

employees. The Option Exchange is designed to allow us to replace options that have little or no retention or incentive value with options that we believe will provide both retention and incentive value without creating additional compensation expense (other than the immaterial expense that might result from fluctuations in our stock price after

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the exchange ratios have been set but before the exchange actually occurs). We believe completion of this program will result in a more efficient use of our resources.

If our shareholders do not approve the Option Exchange, eligible options will remain outstanding and in effect in accordance with their existing terms.

Alternatives Considered

Before deciding to approve and propose the Option Exchange to our shareholders, our Board carefully considered the following alternatives to an option-for-option exchange:

Grant additional equity awards. We considered special grants of additional stock options at current market prices or another form of equity award such as restricted stock units. However, these additional grants would increase the dilution to our shareholders, our overhang and add significant additional expense.

Increase cash compensation. To replace equity incentives, we considered whether we could substantially increase base and target bonus cash compensation awarded to our employees. Significant increases in cash compensation would substantially increase our compensation expenses and reduce our cash flow, which could adversely affect our business and operating results. In addition, these increases would not reduce our overhang.

Exchange options for cash. We also considered implementing a program to exchange underwater options for cash payments. However, such a program would achieve neither the important long-term employee retention value or alignment of our employees' interests with those of our shareholders. In addition, an exchange program for cash would reduce our cash flow, which could adversely affect our business and operating results.

Exchange options for restricted stock units. We also considered implementing a program to exchange underwater options for restricted stock units, or RSUs. However, we do not have a widespread practice of granting RSUs and we did not want to implement such a practice outside of the normal compensation cycle. In addition, in order to ensure that the exchange program is approximately expense-neutral from an accounting perspective, the exchange ratios for an options-for-RSUs exchange program would need to be higher than for an options-for-options exchange program (i.e., fewer replacement awards granted). Thus, we believe that employee participation in an options-for-RSUs exchange program would be lower than with an options-for-options exchange program.

Our Board believes that an option-for-option exchange is a better alternative than the others considered. However, we have not commenced the Option Exchange and will not do so unless our shareholders approve this Option Exchange proposal.

Structure of the Option Exchange

We are asking our shareholders to approve the Option Exchange, which has the following features:

Exclusion of Our Directors and Named Executive Officers. The Option Exchange will be available to specified employees holding eligible stock options (as defined below) other than our named executive officers. In addition, our Board of Directors will not be eligible to participate in the Option Exchange.

Eligible Stock Options. The Option Exchange will be offered only with respect to stock options with a purchase (exercise) price above the highest intraday sales price of our common stock over the 52 weeks (which we refer to as the 52-week high) prior to the beginning of the exchange offer period, and will exclude any stock options granted after

December 31, 2007 (so within the 20 months preceding the expected beginning of the exchange offer period). This approach seeks to remove stock options with intrinsic value in the recent past from being eligible for the Option Exchange, as they may be considered likely to have intrinsic value in the near future. Stock options granted under the following plans may be

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eligible if the exercise price of the option is above the price determined for eligible options prior to start of the exchange offer period:

2006 Stock Incentive Plan

2001 Broad-Based Stock Option Plan

1998 Stock Option Plan

Eligible Participants. The Option Exchange will be open to all current U.S. and international employees who hold eligible options, except as described below. Although we intend to include all employees located outside the United States, we may exclude employees in foreign jurisdictions if, for any reason, including local law restrictions, our Compensation Committee believes that their participation might be illegal, inadvisable or impractical. To be eligible, an individual must be employed on the date the offer to exchange commences and must remain employed with us through the date that replacement options are granted. The Option Exchange will therefore not be open to former employees or retirees. If an option holder is no longer an active employee with us for any reason on the grant date of the new options, even if he or she had elected to participate and had tendered his or her options for exchange, such employee's tender will automatically be deemed withdrawn and he or she will not participate in the option exchange his or her outstanding options will remain outstanding in accordance with their original terms and conditions. In addition, members of the Board and our named executive officers are not eligible to participate. As of June 2009, there were approximately 7,000 employees eligible to participate in the Option Exchange (based on assumptions described in this proposal).

Offer an Approximate Value-for-Value Exchange. The value of an employee's new stock option grant received as part of the Option Exchange is not expected to exceed the value of the employee's surrendered stock option. The exercise price of the new stock options will be set on the day the new options are granted following the closing of the Option Exchange using the closing price of our stock on that day. The option exchange will not be a one-for-one exchange. Instead, participating employees will receive options exercisable for a smaller number of shares than the number of shares covered by the surrendered eligible options. The exchange ratios used to determine the number of new options to be granted in exchange for the eligible options surrendered will be determined in a manner intended to result in the grant of new options that have approximately the same fair value as the eligible options for which they are exchanged. The exchange ratios will be established shortly before the start of the Option Exchange and will depend on the then-current fair value of the eligible option (calculated using the Black-Scholes option pricing model with a computation of expected volatility based on market-based implied volatility), the fair market value of our common stock and the original exercise price of the eligible option. (See the example in **Stock Option Exchange Ratios** below.) We will round down to the nearest whole number of shares once the exchange ratio is applied to old options surrendered in the exchange so that all new options will be for a whole number of shares.

Vesting and Term of New Options. The new stock option awards will have a new vesting period that will require employees to continue their employment with us in order to realize the benefit of the new awards regardless of whether the eligible options were already partially or wholly vested. As a result, eligible employees will have to continue their employment with us to realize any benefit from the new options. New options that are not vested at termination of employment will be forfeited. The new options will also have a new contractual term. The vesting and term of the awards will fall into one of three tiers,

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depending on the grant date of the original option. We expect that the vesting terms for the new options will be as follows:

Grant Dates of Original Option	Vesting Provisions of New Option	Term of New Option
November 10, 2000 – September 28, 2003	100% of the award will vest on the first anniversary of the grant date	Two years
September 29, 2003 – September 15, 2006	Award will vest 33 1/3% on each anniversary of the grant date until the third anniversary of the grant date, when the award will be fully vested	Five years
September 16, 2006 – December 31, 2007	Award will vest 33 1/3% on each anniversary of the grant date until the third anniversary of the grant date, when the award will be fully vested	Seven years

All options will be granted under and be subject to the terms of our 2006 Stock Incentive Plan and will be subject to a new stock option agreement. As with current awards under that plan, vesting ceases upon the termination of the holder's employment with us and the award terminates a period of time thereafter.

Cash out of Options of fewer than 100 Shares. Under the Option Exchange, eligible options exchangeable for a new option for fewer than 100 shares of our stock will be exchanged for a cash payment instead of a new option award. The amount of the cash payment will be equal to the number of shares that would otherwise be granted under the new options (based on the applicable exchange ratio) multiplied by an amount that approximates the Black-Scholes fair value of one option for a share of common stock as of the date the new options would otherwise have been granted under the program.

Timing and Implementation of the Option Exchange. We expect that the Option Exchange will begin in August 2009 after shareholder approval, if received. The actual implementation date and whether we actually implement this program will be determined by our Board. If the Option Exchange does not commence within 12 months of the date our shareholders approve the program, we will not conduct the Option Exchange without again seeking shareholder approval. **Our Board reserves the right to amend, postpone, or cancel the Option Exchange once it has commenced.**

Cancellation of Surrendered Shares. All stock options surrendered as part of the Option Exchange will be cancelled upon completion of the exchange offer, and the shares underlying those options that are not exchanged for new options will not be available for re-issuance under our 2006 Stock Incentive Plan or any other Plans. The Board has approved an amendment to the 2006 Stock Incentive Plan to provide that shares cancelled under options tendered in the Option Exchange that are not granted for exchanged options as part of the program cannot be reissued in the future.

Impact of the Option Exchange

We currently estimate that the Option Exchange could cover approximately 41 million outstanding stock options. The new stock options will be granted with an exercise price equal to the closing price of a share of Analog Devices on the day the new options are granted following the closing of the Option Exchange. The award will be subject to a new vesting schedule and a new contractual term, as described above, as well as the terms of our 2006 Stock Incentive Plan and the terms of the individual agreement for the new option. The shares to be issued under the new options are

already registered for issuance under our 2006 Stock Incentive Plan. Options not surrendered remain unaffected and exercisable according to their terms.

Option Exchange Process

Additional information about how we expect to conduct the Option Exchange, if it is approved by shareholders, is set forth below.

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While the terms of the Option Exchange are expected to conform to the material terms described above in this proposal, we may find it necessary or appropriate to change the terms of the Option Exchange from those described below to take into account our administrative needs, local law requirements in foreign jurisdictions, accounting rules, or Company policy decisions. For example, although we will not amend the terms of the Option Exchange to permit directors or our named executive officers to participate, our Compensation Committee may decide to exclude employees in a particular country where we determine that participation might be illegal or impracticable.

Election to Participate

Upon approval of this proposal and commencement of the Option Exchange, employees holding eligible options will receive (either electronically by email or in paper copy) written materials (or the offer to exchange documents) explaining the precise terms and timing of the exchange program. All of our full-time and part-time employees who are employed with us on the commencement date of the exchange offer period, are still employed at the grant date of the new options following the expiration of the exchange offer, and hold eligible stock option awards may participate in the Option Exchange, with the exclusion of our named executive officers. Our directors also may not participate and, as noted above, additional employees may also be excluded from the program if we determine it to be advisable to exclude them.

Eligible employees will be given at least 20 business days (or such longer period as we may elect to keep the exchange program open) to elect to exchange all, some or none of their eligible options, on a grant-by-grant basis, for replacement options. However, employees will not be permitted to exchange only a portion of a single grant, but rather, if they elect to exchange some options within a particular grant, they will be required to exchange all eligible options within that single grant. Participation in the Option Exchange is entirely voluntary; there is no obligation to exchange options under the program.

At or before commencement of the exchange program, we will file the offer to exchange and other related documents with the SEC as part of a tender offer statement on a filing referred to as a Schedule TO. Employees, as well as shareholders and members of the public, will be able to access the offer to exchange and other documents we file with the SEC free of charge from the SEC's web site at www.sec.gov or on the Investor Relations section of our website, www.analog.com.

The written exchange offer documents described above will be provided to employees (either electronically by email or in hard copy) if and when the Option Exchange is approved and initiated. Employees will be able to elect to participate after that time only. We will not initiate the Option Exchange unless our shareholders approve the proposal at the special meeting.

If you are both a shareholder and an employee holding stock options that are potentially eligible for exchange under the Option Exchange, please note that voting to approve the Option Exchange program does not constitute an election to participate in the Option Exchange.

We may also decide not to implement the Option Exchange even if shareholder approval of the Option Exchange is obtained, or we may amend, postpone or cancel the Option Exchange once it is in progress.

Surrendered Stock Options to Be Cancelled via the Option Exchange

After the offer to exchange is closed, the eligible options surrendered for exchange will be cancelled and the Compensation Committee will promptly approve grants of replacement options to participating employees in accordance with the applicable exchange ratios. All such replacement options will be granted under our 2006 Stock Incentive Plan, which will govern any terms or conditions of new options not specifically addressed by the new option

agreement and terms of the Option Exchange. We will round down to the nearest whole number of shares once the exchange ratio is applied so that all new options will be for a whole number of shares.

Under the Option Exchange, eligible options that are exchangeable for a new option for fewer than 100 shares of our stock will instead be exchanged for a cash payment, and a new option will not be awarded in exchange for that option. The amount of the cash payment will be equal to the number of shares that the

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old option was exchangeable into (based on the applicable exchange ratio, which are described further below) multiplied by an amount that approximates the Black-Scholes fair value of one option for a share of our common stock as of the date the new options would otherwise have been granted under the program. For example, if an employee surrendered an option for 5,000 shares which, based on an applicable exchange ratio of 70 to 1, is potentially exchangeable for a new option for 71 shares of our common stock, the employee will instead receive a cash payment from us in an amount equal to 71 multiplied by the approximate Black-Scholes fair value of an option for a share of our common stock on the date the new option would otherwise have been granted under the program. In this example, if the approximate Black-Scholes fair value of an option for a share of our common stock for that date were \$5, the employee would receive a cash award of \$355.

Stock Option Exchange Ratios

The ratio of shares surrendered under an eligible old option to shares received under a new option in the Option Exchange is called the exchange ratio. The exchange ratios of shares associated with surrendered eligible stock options into new stock options will be established by our Compensation Committee shortly before the start of the Option Exchange. The exchange ratios will be established by grouping eligible awards with similar grant dates and exercise prices, and assigning an appropriate exchange ratio to each grouping with the objective of substantially achieving cost neutrality.

The exchange ratios will be based on the fair value of the eligible awards (calculated using the Black-Scholes option pricing model) within the relevant grouping. The calculation of fair value using the Black-Scholes option pricing model takes into account many variables, such as the expected volatility of our stock and the expected term of a stock option, employee turnover rates, exercise behavior and other factors. We derived the expected term input for the underwater options by means of a Monte-Carlo simulation of future stock price paths. Setting the exchange ratios in this manner is intended to result in the issuance of new stock options that have a fair value approximately equal to the fair value of the surrendered eligible stock options that they replace. This is designed to eliminate additional compensation expense from such new stock options, other than compensation expense that might result from changes in our stock price or other variables after the exchange ratios have been established but before the time that new stock options are granted in the Option Exchange (which expenses are expected to be modest). The actual accounting consequences of the option exchange will depend in part on participation levels as well as on the exchange ratios and vesting schedules established at the time of the exchange.

Although the exchange ratios cannot be determined now, we are providing an example by making certain assumptions regarding the start date of the offer, the fair value of the eligible stock options, and the fair market value of our common stock. To calculate the exchange ratios in the example, we have used the applicable inputs available as of May 22, 2009 for the Black-Scholes option pricing model and have assumed, solely for the purposes of these example exchange ratios, a stock price of \$19.52, which is the average of the daily stock price of our common stock over the first two quarters of fiscal 2009. Under the terms of the Option Exchange, the actual ratios are required to be based on the Black-Scholes valuation input assumptions shortly before the start of the Option Exchange and as a result could increase or decrease depending on those valuation assumptions at that time. Only stock options with an exercise price above the 52-week-high intraday sale price prior to the beginning of the exchange offer period and meeting all the other eligibility requirements referenced earlier will be eligible to participate in the Option Exchange.

In the table below, the exchange ratio represents the number of existing stock options that an employee will be required to surrender in exchange for one new stock option. For example, if an employee surrendered an option for 1,000 shares granted in December 2003 that has an exercise price of \$44 per share, that employee (for purposes of this example only) will receive a new option for 500 shares, using the exchange ratio of 2 to 1, as set forth below.

Eligible options that are eligible to be replaced by a new option exercisable for fewer than 100 shares of our stock will instead be exchanged for a cash payment, and a new option will not be awarded in exchange for that option. The amount of the cash payment will be equal to the number of shares that the old option was exchangeable into (based on the applicable exchange ratio) multiplied by an amount that approximates the

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Black-Scholes fair value of an option for one share of our common stock as of the date the new option would otherwise have been granted under the program.

Examples of Stock Option Exchange Ratios

Grant Date of Original Option	Exercise Price of Eligible Grants	Exchange Ratio	Maximum Number of Shares Underlying Eligible Options	Estimated Number of New Options*	Weighted Average Exercise Price	Weighted Average Remaining Life (In Years)
November 10, 2000 through September 28, 2003	\$ 50.00 or more	70 to 1	134,600	1,923	\$ 57.54	1.33
	\$ 42.00-\$49.99	24 to 1	6,443,908	258,131	\$ 44.64	1.26
	\$ 30.68-\$41.99	4.5 to 1	8,871,195	1,787,331	\$ 40.39	2.33
September 29, 2003 through September 15, 2006	\$ 45.00 or more	3.5 to 1	7,135,552	1,942,686	\$ 45.44	4.24
	\$ 30.68-\$44.99	2 to 1	13,413,028	6,483,588	\$ 38.39	5.68
September 16, 2006 through December 31, 2007	\$ 30.68 or more	1.5 to 1	5,445,972	3,521,685	\$ 33.52	7.31

* These numbers assume full participation in the exchange and no cash out of options.

Accounting Impact

Effective on October 30, 2005, our first quarter of fiscal 2006, Analog Devices adopted the provisions of SFAS No. 123(R), which requires employee equity awards to be accounted for under the fair value method. The Option Exchange is intended to be cost neutral from an accounting standpoint. Thus, we will establish exchange ratios with the intent not to generate incremental share-based compensation expense for Analog Devices. To be cost neutral, the value of the stock options surrendered as calculated immediately prior to their surrender must not exceed the value of the new stock options received by employees in the Option Exchange. We use the Black-Scholes option pricing model to estimate the fair value of all stock options granted to employees, and expect to use that same model in valuing the stock options that are part of the Option Exchange. Note that the Option Exchange ratios will be established just prior to commencement of the exchange offer. Therefore, some risk of incremental compensation expense does exist if there are fluctuations in our common stock price or other key inputs to the Black-Scholes option pricing model between the date the Option Exchange ratios are established and the grant date of the new options granted after the conclusion of the Option Exchange.

Any unrecognized compensation expense from the surrendered stock options will be recognized over the original service period of the surrendered option. Incremental compensation cost, if any, associated with the new stock options under the Option Exchange will be recognized over the service period of the new awards. Compensation cost previously recognized for stock options that are ultimately forfeited due to employees not meeting the applicable

service requirements will be reversed.

U.S. Tax Consequences

The exchange of stock options pursuant to the Option Exchange should be non-taxable and Analog Devices and participating employees should not recognize any income for U.S. federal income tax purposes upon the grant of the new stock options; however, the participating employees who receive cash under the Option Exchange will recognize ordinary income equal to the amount of cash received. All new stock options granted under the Option Exchange will be non-qualified stock options for U.S. federal income tax purposes. Tax effects may vary in other jurisdictions; a more detailed summary of tax considerations will be provided to all participants in the Option Exchange documents to be provided when we launch the program.

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Potential Modifications to Terms to Comply with Governmental Requirements

The terms of the Option Exchange program will be described in the exchange offer documents that we will file with the SEC once we receive shareholder approval. Although we do not anticipate that the SEC will require us to modify the terms significantly, it is possible that we will need to alter the terms of the Option Exchange, including an extension of the period we will keep the offer to exchange open, to comply with comments from the SEC or to comply with local law requirements.

Benefits of the Option Exchange Program and Effect on Shareholders

The decision whether to participate in the Option Exchange is completely voluntary, so we are not able to predict who will participate, how many options any particular employees or group of employees will elect to exchange, or the number of new options that we may grant. As noted above, however, the members of our Board of Directors and our named executive officers are not eligible to participate in the Option Exchange.

We designed the Option Exchange to provide renewed incentives, motivate eligible employees to continue to create shareholder value, retain those employees through the new vesting period and reduce the number of shares currently subject to outstanding options, thereby avoiding the dilution in ownership resulting from the issuance of new shares on exercise of those options. While we cannot predict which or how many employees will elect to participate in the Option Exchange, based on the assumptions described above, including an assumed \$30.68 52-week high of our common stock and a \$19.52 share price, if all eligible options are exchanged, options to purchase approximately 41 million shares will be surrendered and cancelled, while replacement options covering approximately 14 million shares will be granted, resulting in a net reduction in our equity award overhang of approximately 27 million shares.

Conclusion

We strongly believe that our stock option program and emphasis on employee stock ownership have been integral to our success. We believe that our broad-based equity program has enhanced our ability to attract, motivate, and retain the employee talent critical to attaining long-term performance and shareholder returns. Therefore, we consider approval of the Option Exchange to be important to our future success.

Recommendation of the Board

The Board of Directors recommends that you vote FOR the approval of the proposed employee stock option exchange program.

Table of Contents**SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

The following table contains information regarding the beneficial ownership of our common stock as of May 15, 2009 by:

the shareholders we know to beneficially own more than 5% of our outstanding common stock;

each of our directors;

each executive officer named in the Summary Compensation Table included in our proxy statement for our 2009 annual meeting of shareholders, who are our Named Executive Officers; and

all of our directors and executive officers as a group.

Name and Address of Beneficial Owner(1)	Number of Shares Beneficially Owned(2)	+	Shares Acquirable Within 60 Days(3)	=	Total Beneficial Ownership	Percent of Common Stock Beneficially Owned(4)
<i>5% Shareholders:</i>						
FMR LLC(5) 82 Devonshire Street Boston, Massachusetts 02109	20,143,152				20,143,152	6.9%
T. Rowe Price Associates, Inc.(6) 100 East Pratt Street Baltimore, Maryland 21202	20,196,847				20,196,847	6.9%
<i>Directors and Named Executive Officers:</i>						
James A. Champy	6,666		79,334		86,000	*
John L. Doyle	9,728		152,300		162,028	*
Jerald G. Fishman	421,348		3,035,630		3,456,978	1.2%
John C. Hodgson	5,000		36,750		41,750	*
Yves-Andre Istel	12,000		5,383		17,383	*
Robert R. Marshall	89,000		455,860		544,860	*
Robert P. McAdam	186,601		529,756		716,357	*
Joseph E. McDonough	13,150		534,930		548,080	*
Neil Novich	8,000		5,000		13,000	*
Vincent T. Roche	100		426,056		426,156	*
F. Grant Saviers	7,500		152,300		159,800	*
Paul J. Severino	16,200		30,000		46,200	*
David A. Zinsner						*
Kenton J. Sicchitano	5,500		83,000		88,500	*
Ray Stata(7)	5,127,249		660,246		5,787,495	2.0%
All directors and executive officers as a group (19 persons, consisting of 11	5,923,853		6,688,361		12,612,214	4.2%

officers and 8 non-employee directors)(8)

* Less than 1% of the outstanding common stock.

- (1) Unless otherwise indicated, the address of each beneficial owner listed is c/o Analog Devices, Inc., One Technology Way, Norwood, MA 02062.
- (2) For each person, the Number of Shares Beneficially Owned column may include shares of common stock attributable to the person because of that person's voting or investment power or other relationship. Unless otherwise indicated, each person in the table has sole voting and investment power over the shares listed. The inclusion in the table of any shares, however, does not constitute an admission of beneficial ownership of those shares by the named shareholder.

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- (3) The number of shares of common stock beneficially owned by each person is determined under rules promulgated by the Securities and Exchange Commission, or SEC. Under these rules, a person is deemed to have beneficial ownership of any shares over which that person has or shares voting or investment power, plus any shares that the person may acquire within 60 days, including through the exercise of stock options. Unless otherwise indicated, for each person named in the table, the number in the Shares Acquirable Within 60 Days column consists of shares covered by stock options that may be exercised within 60 days after May 15, 2009.
- (4) The percent ownership for each shareholder on May 15, 2009 is calculated by dividing (1) the total number of shares beneficially owned by the shareholder by (2) the number of shares of our common stock outstanding on May 15, 2009 (291,249,065 shares) plus any shares acquirable (including stock options exercisable) by the shareholder in question within 60 days after May 15, 2009.
- (5) Based solely on a Schedule 13G filed by FMR LLC on May 15, 2009 reporting the above stock holdings as of March 31, 2009. FMR LLC reports that it has sole voting authority with respect to 748,389 shares and sole dispositive power over 19,394,763 shares.
- (6) Based solely on a Schedule 13G filed by T. Rowe Price Associates, Inc. on May 14, 2009 reporting the above stock holding as of March 31, 2009. T. Rowe Price Associates, Inc. reports that it has sole voting authority with respect to 4,398,653 shares and sole dispositive power with respect to 15,798,194 shares. These securities are owned by various individual and institutional investors for which T. Rowe Price Associates, Inc. (Price Associates) 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, Price Associates is deemed to be a beneficial owner of such securities; however, Price Associates expressly disclaims that it is, in fact, the beneficial owner of such securities.
- (7) Includes 1,108,709 shares held by Mr. Stata's wife, 400,277 shares held in trusts for the benefit of Mr. Stata's children, and 2,487,588 shares held in charitable lead trusts, as to which Mr. Stata disclaims beneficial ownership.
- (8) All directors and executive officers as a group disclaim beneficial ownership of a total of 3,996,574 shares.

INCORPORATION BY REFERENCE

The SEC allows us to incorporate by reference information into this proxy statement, which means that we can disclose important information to you by referring you to other documents that we have filed separately with the SEC and are delivering to you with the copy of this proxy statement. The information incorporated by reference is deemed to be part of this proxy statement. This proxy statement incorporates by reference the following documents:

- (i) ADI's Annual Report on Form 10-K for the year ended November 1, 2008, filed with the SEC on November 25, 2008;
- (ii) ADI's Quarterly Report on Form 10-Q for the quarterly period ended January 31, 2009, filed with the SEC on February 18, 2009; and
- (iii) ADI's Quarterly Report on Form 10-Q for the quarterly period ended May 2, 2009, filed with the SEC on May 19, 2009.

In addition, we have included information about the compensation of our directors and our named executive officers in Appendix A to this proxy statement.

HOUSEHOLDING OF SPECIAL MEETING MATERIALS

Some banks, brokers and other nominee record holders may be participating in the practice of householding proxy statements. This means that only one copy of our proxy statement may have been sent to multiple shareholders in your household. We will promptly deliver a separate copy to you if you contact us at the following address or telephone number: Investor Relations Department, Analog Devices, Inc., One

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Technology Way, Norwood, Massachusetts 02062, telephone: 781-461-3282. If you want to receive separate copies of our proxy statements or annual report to shareholders in the future, or if you are receiving multiple copies and would like to receive only one copy per household, you should contact your bank, broker, or other nominee record holder, or you may contact us at the above address, telephone number or email address.

ELECTRONIC VOTING

If you own your shares of common stock of record, you may vote your shares over the Internet at *www.proxyvote.com* or telephonically by calling 1-800-690-6903 and by following the instructions on the enclosed proxy card. Proxies submitted over the Internet or by telephone must be received by 11:59 p.m. EST on July 19, 2009.

If the shares you own are held in street name by a bank or brokerage firm, your bank or brokerage firm will provide a vote instruction form to you with this proxy statement, which you may use to direct how your shares will be voted. Many banks and brokerage firms also offer the option of voting over the Internet or by telephone, instructions for which will be provided by your bank or brokerage firm on your vote instruction form.

We hope that our shareholders will attend the meeting. Whether or not you plan to attend, you are urged to vote your shares over the Internet or by telephone, or complete, date, sign and return the enclosed proxy card in the accompanying postage-prepaid envelope. A prompt response will greatly facilitate arrangements for the meeting and your cooperation will be appreciated. Shareholders who attend the meeting may vote their stock personally even though they have previously sent in their proxies.

Table of Contents**APPENDIX A: EXECUTIVE AND DIRECTOR COMPENSATION FOR FISCAL YEAR 2008**

(as disclosed in our Definitive Proxy Statement filed with the Securities and Exchange Commission on February 4, 2008)

Director Compensation

The following table details the total compensation earned by our non-employee directors in fiscal 2008.

2008 Director Compensation*

Name(1)	Fees Earned or		All Other Compensation	Total (\$)
	Paid in Cash (\$)(2)	Option Awards (\$)(3)(4)		
James A. Champy	75,000	140,069		215,069
John L. Doyle	75,000	140,069		215,069
John C. Hodgson	60,000	113,690		173,690
Yves-Andre Istel	55,055	29,224		84,279
Christine King	30,000	160,385		190,385
Neil Novich	27,527	18,513		46,040
F. Grant Saviers	60,000	140,069		200,069
Paul J. Severino	60,000	138,106		198,106
Kenton J. Sicchitano	75,000	140,069		215,069
Lester Thurow	19,495	168,163	3,019(5)	190,677

* The membership of our Board of Directors changed during fiscal 2008. Lester Thurow retired from the Board on December 4, 2007 and Christine King did not stand for re-election and departed from the Board on March 11, 2008. Mr. Istel joined the Board on December 4, 2007 and Mr. Novich joined the Board on May 19, 2008.

- (1) Messrs. Fishman and Stata were the only directors during fiscal 2008 who were also employees of Analog. Neither receives any compensation in their capacities as directors of Analog. Mr. Fishman's compensation is included in the Summary Compensation Table and Mr. Stata's compensation is included under Certain Relationships and Related Transactions.
- (2) This amount includes a \$60,000 pro-rated annual board retainer. An additional pro-rated annual retainer of \$15,000 is paid to the chair of the Audit Committee (Mr. Sicchitano), Compensation Committee (Mr. Champy) and Nominating and Corporate Governance Committee (Mr. Doyle). The retainer payable to the chair of the Audit Committee was increased to \$20,000, commencing in fiscal 2009. These cash retainers are paid in quarterly installments each on the 15th day of December, March, June and September of each fiscal year.
- (3) With the exception of ignoring the impact of the forfeiture rate, these amounts represent the dollar amount recognized by the Company in fiscal 2008 for financial reporting purposes, in accordance with Statement of

Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment* (SFAS 123R), related to grants of options to each listed director, including awards granted before fiscal 2008, if applicable. These amounts do not represent the actual amounts paid to or realized by the directors during fiscal 2008. The SFAS 123R value as of the grant date for stock options is recognized over the number of days of service required for the stock option to become vested. Ratable amounts expensed for stock options that were granted in years prior to fiscal 2008 are also reflected in the table above. Upon Mr. Thurow's departure on December 4, 2007, in accordance with the applicable stock option plans, he became entitled to 31,000 previously unvested options. Upon Ms. King's departure on March 11, 2008, in accordance with the applicable stock option plan, Ms. King became entitled to 15,000 previously unvested options. In accordance with SFAS 123R all unamortized expense related to these unvested options was accelerated and recognized by the Company in fiscal 2008.

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The following table includes the assumptions used to calculate the compensation expense reported for fiscal 2008 on a grant by grant basis for our directors.

Name	Grant Date	Shares Granted (#)	Exercise Price (\$)	Volatility (%)	Assumptions			2008 Expense (\$)
					Expected Life (Years)	Risk-Free Interest Rate (%)	Dividend Yield (%)	
James A. Champy	12/07/2004	18,000	37.70	27.040	5.00	3.600	0.637	1,963
	12/06/2005	15,000	39.44	28.640	5.00	4.420	1.217	58,025
	1/04/2007	15,000	33.41	30.496	5.10	4.610	2.155	47,226
	1/03/2008	15,000	29.91	32.160	5.10	3.260	2.407	32,855
John L. Doyle	12/07/2004	18,000	37.70	27.040	5.00	3.600	0.637	1,963
	12/06/2005	15,000	39.44	28.640	5.00	4.420	1.217	58,025
	1/04/2007	15,000	33.41	30.496	5.10	4.610	2.155	47,226
	1/03/2008	15,000	29.91	32.160	5.10	3.260	2.407	32,855
John C. Hodgson	9/13/2005	18,000	38.35	27.690	5.00	4.230	1.126	19,103
	12/06/2005	3,750	39.44	28.640	5.00	4.420	1.217	14,506
	1/04/2007	15,000	33.41	30.496	5.10	4.610	2.155	47,226
	1/03/2008	15,000	29.91	32.160	5.10	3.260	2.407	32,855
Yves-Andre Istel	1/03/2008	1,150	29.91	32.160	5.10	3.260	2.407	2,519
	1/15/2008	15,000	26.46	32.430	5.10	3.000	2.721	26,705
Christine King	12/07/2004	18,000	37.70	27.040	5.00	3.600	0.637	1,963
	12/06/2005	15,000	39.44	28.640	5.00	4.420	1.217	63,444
	1/04/2007	15,000	33.41	30.496	5.10	4.610	2.155	55,400
	1/03/2008	15,000	29.91	32.160	5.10	3.260	2.407	39,578
Neil Novich	6/16/2008	15,000	34.25	33.740	5.10	3.730	2.336	18,513
F. Grant Saviers	12/07/2004	18,000	37.70	27.040	5.00	3.600	0.637	1,963
	12/06/2005	15,000	39.44	28.640	5.00	4.420	1.217	58,025
	1/04/2007	15,000	33.41	30.496	5.10	4.610	2.155	47,226
	1/03/2008	15,000	29.91	32.160	5.10	3.260	2.407	32,855
Paul J. Severino	12/06/2005	15,000	39.44	28.640	5.00	4.420	1.217	58,025
	1/04/2007	15,000	33.41	30.496	5.10	4.610	2.155	47,226
	1/03/2008	15,000	29.91	32.160	5.10	3.260	2.407	32,855
Kenton J. Sicchitano	12/07/2004	18,000	37.70	27.040	5.00	3.600	0.637	1,963
	12/06/2005	15,000	39.44	28.640	5.00	4.420	1.217	58,025
	1/04/2007	15,000	33.41	30.496	5.10	4.610	2.155	47,226
	1/03/2008	15,000	29.91	32.160	5.10	3.260	2.407	32,855

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Lester Thurow	12/07/2004	18,000	37.70	27.040	5.00	3.600	0.637	1,963
	12/06/2005	15,000	39.44	28.640	5.00	4.420	1.217	63,445
	1/04/2007	15,000	33.41	30.496	5.10	4.610	2.155	102,755

The grant date fair value of the options granted in fiscal 2008 calculated in accordance with SFAS 123R was \$118,736 for each of Messrs. Champy, Doyle, Hodgson, Saviers, Severino and Sicchitano and Ms. King and \$146,895 for Mr. Novich. Mr. Istel received two grants in fiscal 2008 on January 3, 2008 and January 15, 2008. The grant date fair value for these grants was \$9,103 and \$100,487, respectively. For a

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more detailed description of the assumptions used for purposes of determining grant date fair value, see Note 3 to the Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies and Estimates Stock-Based Compensation, included in Analog Devices Annual Report on Form 10-K for the year ended November 1, 2008.

- (4) The aggregate number of shares subject to option awards held by each director (representing unexercised option awards both exercisable and unexercisable) at November 1, 2008 is as follows:

Name	Number of Shares Subject to Option Awards Held as of November 1, 2008 (#)
James A. Champy	94,334
John L. Doyle	167,300
John C. Hodgson	51,750
Yves-Andre Istel	16,150
Neil Novich	15,000
F. Grant Saviers	169,800
Paul J. Severino	45,000
Kenton J. Sicchitano	98,000
Lester Thurow	131,300
TOTAL	788,634

Ms. King had no shares subject to option awards outstanding as of November 1, 2008.

- (5) Amount represents the value of a gift and related taxes that were awarded to Mr. Thurow in recognition of his years of service upon his retirement from the Board in December 2007.

We also reimburse our directors for travel and other related expenses. Each director can elect to defer receipt of his or her fees under our Deferred Compensation Plan. See INFORMATION ABOUT EXECUTIVE COMPENSATION Non-Qualified Deferred Compensation Plan below.

Stock Option Policy for Non-employee Directors

Effective October 29, 2006, the Board established the following stock option grant policy for non-employee directors:

Each newly elected non-employee director is automatically granted a non-qualified stock option to purchase 15,000 shares of our common stock under our 2006 Stock Incentive Plan (the 2006 Plan) on the 15th day of the month following the date of initial election as a director, or if the NYSE is closed on that day, the next succeeding business day that the NYSE is open, at an option exercise price equal to the fair market value of the common stock on the date of grant (which will equal the closing price of the common stock on the date of grant, unless otherwise determined by the Compensation Committee).

On an annual basis, each incumbent non-employee director is automatically granted a non-qualified stock option to purchase 15,000 shares of our common stock under the 2006 Plan (with the number of shares subject to the first annual option granted to a director to be on a pro rata basis based on the length of service during the calendar year in which such director was elected) on the second business day following January 1 that the NYSE is open, at an option

exercise price equal to the fair market value of the common stock on the date of grant (which will equal the closing price of the common stock on the date of grant, unless otherwise determined by the Compensation Committee).

Options granted to our non-employee directors under the 2006 Plan vest in three equal installments on the first, second and third anniversaries of the date of grant, subject to acceleration as described below. These options will vest in full upon the occurrence of a Change in Control Event (as defined in the 2006 Plan) or the director's death. Upon (1) the director's retirement from our Board after attaining age 60, (2) removal of the director by the Board or (3) the Board's failure to nominate the director for reelection as a director (other than

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because the director has refused to serve as a director), each option will vest as to an additional number of shares that would have vested if the director continued to serve as a director through the next succeeding anniversary of the date of grant. If the director ceases to serve as a director by reason of his disability, as determined by the Board, each option will continue to become exercisable over its remaining term on the dates it otherwise would have vested if the director's service had not been terminated for disability. In addition, upon the occurrence of a Change in Control Event or in the event of the director's death, disability or retirement after age 60, each option will continue to be exercisable for the balance of its term.

In accordance with the policy described above, on January 5, 2009 we granted stock options for services provided during calendar year 2008 to each non-employee director for the purchase of 15,000 shares of our common stock at an exercise price of \$19.57 per share, except Mr. Novich who received a pro-rated amount based on the date he joined the Board.

INFORMATION ABOUT EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

Executive Summary

Analog Devices has designed its executive compensation program to motivate and reward our executives for company performance and to attract and retain talented executives.

At least 70% of our total compensation for the executive officers listed in the Summary Compensation Table below, or Named Executive Officers, is directly linked to the Company's performance in the form of performance-based cash and equity awards. We believe this provides our executives an opportunity to earn above average compensation if Analog Devices delivers superior results. In addition, because competition in the semiconductor industry is intense for qualified and talented executives, we benchmark our total compensation against leading semiconductor companies to ensure that we pay competitively.

We link a significant portion of our executives' cash compensation to Company performance measured by our operating profit before taxes, or OPBT. Our target for executive bonus payments in 2008 was a ratio of OPBT to revenue of 22.5%. This is the same target that we use to determine the profit sharing bonus for all Analog Devices employees. Under our Fiscal Year 2008 Executive Bonus Plan, or the 2008 Executive Bonus Plan, our Compensation Committee has the discretion to increase individual executive incentives for our 2008 fiscal year, or fiscal 2008, by as much as 30% only if the Company and the executive achieve superior business performance. In 2008, however, our Compensation Committee did not modify the individual incentives for any of our Named Executive Officers, electing to pay them based on the same OPBT target that we paid to employees in the broader Analog Devices profit sharing plan.

Analog Devices also provides long-term incentives to our executives and employees in the form of stock options. Options generally vest over five years, linking executives' rewards directly to their ability to create value for our shareholders and providing an incentive for our executives to remain with Analog Devices over the long term.

The global financial and credit crisis has presented challenges for many companies, including Analog Devices. Our Compensation Committee has frozen salaries at 2008 levels for executive officers until business conditions improve. In addition, the Compensation Committee has not lowered the performance targets for our executive officers and 2009 cash incentive payments will be made only if the Company achieves the same OPBT targets that the Compensation Committee set for last year. Because the Compensation Committee selected OPBT as the performance measure for determining incentive payments for our employees (including our executive officers), we do not believe that our

executive compensation is structured to promote inappropriate risk taking by our executives. We believe that our focus on OPBT encourages management to take a balanced approach that focuses on corporate profitability.

Compensation Processes and Philosophy

Our Compensation Committee reviews and approves all compensation for our executive officers, including salary, bonus, equity compensation, perquisites, severance arrangements and change in control

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benefits, as required by its charter. Our Compensation Committee consists entirely of independent directors, and met seven times during fiscal 2008.

The Compensation Committee has a two-fold philosophy regarding the total compensation of our senior executives, which primarily consists of base salary, target annual cash bonus and estimated value of stock-based awards. First, the Compensation Committee seeks to encourage and reward our executives for their contributions to the Company's performance and profitability by tying at least 70% of our Named Executive Officers' total compensation directly to the Company's annual and long-term performance. Second, the Compensation Committee seeks to ensure that our executive compensation is competitive by targeting the total compensation of each executive at approximately the 50th percentile of our compensation peer group of companies described below. The actual percentile may vary depending on our financial performance, each executive's individual performance and importance to the Company or internal equity considerations among all senior executives.

While our Compensation Committee believes that compensation survey data are useful guides for comparative purposes, we believe that a successful compensation program also requires that the Committee apply its own judgment and subjective determination of individual performance by our executives. Therefore, the Compensation Committee applies its judgment in reconciling the program's objectives with the realities of rewarding excellent performance and retaining valued employees.

Our Compensation Committee has retained an independent compensation consultant, Pearl Meyer and Partners, or PMP. Our Compensation Committee worked directly with PMP to develop recommendations for the Chief Executive Officer's compensation which are reflected in his employment and long-term retention agreements. The Chief Executive Officer makes recommendations each year to the Compensation Committee about the compensation of the other executive officers based on their achievement of annual Company and individual objectives. While the Compensation Committee is solely responsible for approving executive compensation, our Vice President of Human Resources and other members of our human resources department support the work of the Committee and PMP. In addition, at the request of the Compensation Committee, our Chief Executive Officer meets periodically with the Committee regarding the design of our compensation programs. The Compensation Committee meets periodically in executive session without management present.

In making its compensation determinations, our Compensation Committee reviews and analyzes tally sheets, which provide a total of all elements of compensation for each of our executive officers. The Compensation Committee also annually reviews the total compensation that each of our executive officers and other key executives is eligible to receive against the compensation levels of comparable positions of a peer group of companies. The Compensation Committee selects peer companies in the semiconductor industry based on their similarity to Analog Devices in their revenue size and market capitalization.

In fiscal 2008, the Compensation Committee reviewed our 2007 peer group of six companies. Based on its review, the Compensation Committee removed Maxim Integrated Products from the group, because it was delisted as a public company during the year, and added Cypress Semiconductor Corporation, LSI Corporation, Marvell Technology Group Ltd. and ON Semiconductor because they are semiconductor companies relatively comparable to us in terms of revenue size and market capitalization. In addition, we hire from the same talent pool as this peer group of companies. Below are our 2007 peer group and our revised 2008 peer group:

2007 Peer Group

Broadcom Corp.
Linear Technology Corp.

Revised 2008 Peer Group

Broadcom Corp.
Cypress Semiconductor Corp.

Maxim Integrated Products
National Semiconductor Corp.
Texas Instruments Inc.
Xilinx, Inc.

Linear Technology Corp.
LSI Corp.
Marvell Technology Group Ltd.
National Semiconductor Corp.
ON Semiconductor
Texas Instruments Inc.
Xilinx, Inc.

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For officers in positions for which the 2008 Peer Group companies do not publicly disclose compensation data, the Compensation Committee reviewed PMP's 2008 CHiPS Executive and Senior Management Total Compensation Survey reflecting the average compensation, by position, of 15 semiconductor companies, which were considered the peer group for these officers.

Components of Executive Compensation

Our compensation program includes both incentive and retention-related compensation components. We include cash bonuses to encourage and reward our executives for effective performance in furthering our shorter-term plans and objectives. We include stock options to encourage our executives to focus on longer-term goals, to help retain key contributors and to more closely align their interests with those of our shareholders. In recent years, we have increased the portion of our executive officers' total compensation that varies from year to year based on our results and the individual executive's performance. Annual compensation for our executive officers consists of the following principal elements:

Base salary

Performance-based cash bonus, through our Executive Bonus Plan

Equity compensation in the form of stock options and stock-based awards

Retirement and other employee benefits

Base Salary

For fiscal 2008, the Compensation Committee determined the amount of annual base salary that each executive received based on the Committee's evaluation of the following factors:

The 50th percentile salary range for individuals in comparable positions based on the 2007 Peer Group survey prepared by PMP;

The executive's responsibilities for and activities on behalf of the Company and the impact of those responsibilities and activities on our overall performance;

The executive's skills, experience and performance in the prior year;

The potential for the executive's growth and development; and

A comparison of the above elements with similar elements for other executives within the Company.

The salaries for all of our Named Executive Officers in fiscal 2008 appear in the Summary Compensation Table that follows this Compensation Discussion and Analysis. The Compensation Committee maintained Mr. Fishman's salary at the same level as it has been since 2003 because the Committee decided that any increase in Mr. Fishman's compensation should be in the form of performance-based compensation. During 2008, the Compensation Committee increased the salaries of Messrs. Marshall and McAdam by 4% and Mr. Roche by 7.8% in order to maintain their salaries within the range of comparable salaries in the 2007 Peer Group survey. In December 2007, Mr. McDonough announced his intention to retire during 2008, so the Compensation Committee did not change Mr. McDonough's salary rate in 2008.

Due to widespread economic uncertainty in the United States, and to reduce our payroll expenses, management froze employee salaries at 2008 levels and postponed annual salary increases which would normally take effect in early 2009 until business conditions improve. Certain employees may receive promotional raises in fiscal 2009 in recognition of increased responsibilities, but none of our Named Executive Officers has received such an increase.

2008 Executive Bonus Plan

In January 2008, the Compensation Committee approved the terms of the 2008 Executive Bonus Plan. All executive officers, including our Named Executive Officers, and other senior management selected by the

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Chief Executive Officer participated in the 2008 Executive Bonus Plan. We calculated and paid bonuses under the 2008 Executive Bonus Plan as follows:

$$\begin{array}{ccccccc} \text{Base} & & \text{Individual} & & \text{Bonus} & & \text{Individual} & & \text{Bonus} \\ \text{Salary} & \times & \text{Target} & \times & \text{Payout} & \times & \text{Payout} & = & \text{Payout} \\ & & \text{Bonus} & & \text{Factor} & & \text{Factor} & & \\ & & \text{Percentage} & & & & & & \end{array}$$

For purposes of this calculation, the Bonus Payout is calculated on a quarterly basis (using Base Salary for that quarter) and paid semi-annually after the end of the second and fourth fiscal quarters. The Individual Payout Factor is applied only at the end of the year to the sum of the four quarterly bonus payout amounts, if the Compensation Committee considers it to be appropriate.

Individual Target Bonus Percentages. The Compensation Committee establishes Individual Target Bonus Percentages as part of its annual review of each executive's compensation. The Compensation Committee established the following target bonuses, as a percentage of base salary, for the Named Executive Officers in 2008, which are the same as their target bonuses for 2007:

Mr. Fishman 160%

Mr. McDonough 75%

Mr. Marshall 75%

Mr. McAdam 75%

Mr. Roche 75%

The Compensation Committee set these target bonus percentages to ensure that a substantial portion of each executive's cash compensation is linked directly to business performance and to provide the executives with a performance-based opportunity to achieve total compensation (consisting of salary, bonus and equity award) at approximately the 50th percentile of the 2007 Peer Group. In particular, by fixing Mr. Fishman's target at 160% and not increasing his base salary through 2010, the Compensation Committee ensured that most of his total compensation would be based upon the Company's and Mr. Fishman's performance. In originally determining Mr. Fishman's target bonus percentage, the Compensation Committee took into account the fact that, under his long-term retention agreement, he participates in a cash-based incentive plan and is not eligible for equity-based awards until at least the end of fiscal 2010, as discussed under Agreements with Mr. Fishman below. The Compensation Committee also maintained the target bonus percentages for the other Named Executive Officers at the same levels as in the prior year because their total cash compensation, after taking into account the salary increases discussed above, were within the ranges of total cash compensation at the 50th percentile in the 2007 Peer Group.

Bonus Payout Factor. The Compensation Committee bases the Bonus Payout Factor on our OPBT (operating profit before taxes) as a percentage of revenue for the applicable quarterly bonus period. The Compensation Committee selected OPBT as a measure of Company performance because OPBT directly links incentive payments to Company profitability and we have the goal of enabling employees to share in our profitability. In addition, payments based on OPBT are not fixed costs, like some other performance measures, but are variable and paid only if we are profitable. The Compensation Committee may adjust the OPBT in its sole discretion to include or exclude special items such as (but not limited to) restructuring-related expense, acquisition-related expense, gain or loss on disposition of

businesses, non-recurring royalty payments, and other similar non-cash or non-recurring items. The Compensation Committee annually sets the OPBT targets, which are equally applicable to our executives under the Executive Bonus Plan and all of our non-executive employees under our profit sharing plan. We measure performance against those OPBT targets on a quarterly basis, applying the corresponding Bonus Payout Factor to Base Salary for that quarter, and pay the bonus amounts on a semi-annual basis after the end of the second and fourth quarters.

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During fiscal 2008, we used the following table to determine the bonus payout factor for each quarter:

Company Performance (OPBT/Revenue)	Achievement Level	Bonus Payout Factor
12%	Below Target	0%
22.5%	Target	100%
31%	Exceeds Target	200%
36%	Maximum	300%

In the event that in any quarter Company OPBT exceeds the target level, the bonuses increase from 100% to 300% so that as OPBT increases over the target level, the bonus payout factor increases correspondingly. For fiscal 2008, the Company's OPBT and Bonus Payout Factor for each quarter were as follows:

Period	Actual OPBT/Revenue	Bonus Payout Factor
Q1	23.8%	115%
Q2	24.2%	120%
Q3	24.5%	124%
Q4	24.8%	127%

The OPBT for fiscal 2008 was calculated excluding restructuring-related expenses in the fourth quarter as well as certain divestiture-related expenses. Our Compensation Committee believes these limited exclusions are necessary because we do not expect these expenses to be ongoing future operating expenses and their exclusion facilitates an appropriate comparison of our current operating performance to our past operating performance.

Individual Payout Factor. Each participant in the 2008 Executive Bonus Plan, other than Messrs. Stata and Fishman, was also eligible to have his or her award under this plan increased by an additional Individual Payout Factor. Messrs. Stata and Fishman are not eligible for the additional Individual Payout Factor and their bonuses are calculated using only the Bonus Payout Factor used for all other Analog Devices employees.

The Individual Payout Factor can increase the calculated bonus payment for executives by up to 30% based on superior business performance attributable to the executives' individual efforts. At the end of the fiscal year, the Chief Executive Officer reviews and assesses the performance of each of the Named Executive Officers with respect to his goals and makes recommendations to the Compensation Committee. The Committee then, in its discretion, determines whether there is extraordinary performance justifying the application of an Individual Payout Factor for applicable Named Executive Officers. In evaluating whether the Company and the individual have achieved extraordinary business performance, the Compensation Committee may consider, among other things, the significant overachievement of revenue and profitability goals for the executives' respective businesses under the Company's annual business plan, as well as the achievement of extraordinary individual non-financial results that contributed positively to our performance. For fiscal 2008, the Compensation Committee determined that the quarterly Bonus Payout Factors accurately reflected our strong business performance and therefore made no further adjustments to any Named Executive Officer's compensation using the Individual Payout Factor.

The actual bonus payments for the Named Executive Officers under the 2008 Executive Bonus Plan appear in the Summary Compensation Table below.

2009 Executive Bonus Plan

In December 2008, the Compensation Committee approved the terms of the 2009 Executive Bonus Plan, which were the same as the 2008 Executive Bonus Plan described above. The individual target bonus percentages and OPBT targets remained the same for fiscal 2009 as they were in fiscal 2008. Achievement of the bonus payout factor and individual payout factor for fiscal 2009 will be determined based upon 2009 performance.

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Equity Compensation

Our equity compensation program is a broad-based, long-term employee retention program that is intended to attract, retain and motivate our employees, officers and directors and to align their interests with those of our shareholders. We currently have one plan, the 2006 Stock Incentive Plan, as amended, or the 2006 Plan, under which we grant equity awards. The 2006 Plan permits us to grant options to purchase shares of our common stock, stock appreciation rights, restricted stock, restricted stock units and other stock-based awards to all employees, officers, directors, consultants and advisors of Analog. The 2006 Plan does not permit us to grant options with exercise prices below the fair market value of our common stock on the date on which the options are granted. We believe that our option program is critical to our efforts to create and maintain a competitive advantage in the extremely competitive semiconductor industry.

Our executive officers' total compensation includes long-term incentives afforded by stock options and, to a lesser extent, stock-based awards such as restricted stock units. The purpose of our equity compensation program and our use of stock options is to reinforce the mutuality of long-term interests between our employees and our shareholders and to assist in attracting and retaining important key executives and employees who are essential to our success.

All of our stock options have a term of ten years, and they generally vest in five equal installments on each of the first, second, third, fourth and fifth anniversaries of the date of grant. We believe that meaningful vesting periods encourage recipients to remain with the Company over the long-term and, because the value of the awards is based on our stock price, stock options encourage recipients to achieve longer-term goals, such as strategic growth, business innovation and shareholder return. In general, employees whose employment terminates (other than for death or disability) before the award fully vests forfeit the unvested portions of these awards. While we believe that our longer vesting periods serve our employee retention goals, they tend to increase the number of stock options outstanding at any given time compared to companies that grant stock options with shorter vesting schedules.

We annually set a goal to keep the shareholder dilution related to our equity ownership program to a certain percentage, net of forfeitures. This dilution percentage is calculated as the total number of shares of common stock underlying new option grants made during the year, net of management's estimated forfeitures and cancellations for the year, divided by the total number of outstanding shares of our common stock at the beginning of the year. For fiscal 2008, our net dilution percentage was -0.8%, compared to 4.0% for our 2008 Peer Group. Our 2008 net dilution percentage was significantly lower than that of our 2008 Peer Group due to the divestitures of our CPU voltage regulation and PC thermal monitoring product line and our cellular handset radio and baseband chipset operations during 2008, which resulted in the forfeiture of a large number of equity awards held by employees associated with those businesses. In addition, this low percentage reflects our efforts to reduce the impact of stock option compensation expense on our financial statements by granting fewer equity awards.

In 2008, the Compensation Committee authorized grants of options to the Named Executive Officers, as follows:

Mr. Marshall 50,000 shares

Mr. McAdam 50,000 shares

Mr. Roche 80,000 shares.

In granting these options, the Compensation Committee considered the equity compensation levels of comparable executives at the 2007 Peer Group companies, as well as the number of shares of Company stock and stock options that each of the executives already held. The Compensation Committee authorized these grants because the existing equity grants of Messrs. Marshall, McAdam and Roche, valued on a Black-Scholes basis on their grant date of

January 3, 2008, had a value significantly below the 50th percentiles of comparable equity grants shown in the 2007 Peer Group survey. Mr. Fishman did not receive an equity award during 2008 because under his long-term retention agreement, Mr. Fishman participates in a cash-based incentive plan and is not eligible for equity-based awards until at least November 14, 2010, as discussed under Agreements with

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Mr. Fishman below. Mr. McDonough announced his intention to retire in fiscal 2008, and therefore the Compensation Committee decided not to grant him an equity award during 2008.

In 2006, we established stock ownership guidelines for our executive officers. Under the guidelines, the target share ownership levels are two times the annual base salary for the Chief Executive Officer and one times annual base salary for other executive officers. Executives other than the CEO have five years to achieve the targeted level. The CEO has three years to achieve the targeted level. We believe all of our executives will meet their stock ownership guidelines in the required time frame. Shares subject to unexercised options, whether or not vested, will not be counted for purposes of satisfying these guidelines.

We prohibit all hedging transactions or short sales involving Company securities by our employees, including our executives.

Retirement and Other Employee Benefits

We maintain broad-based benefits for all employees, including health and dental insurance, life and disability insurance and retirement plans. Executives are eligible to participate in all of our employee benefit plans on the same basis as our other employees.

In the United States, under our 401(k) plan, we contribute to the plan on behalf all participants, including our Named Executive Officers, amounts equal to 5% of the employee's eligible compensation, plus matching contributions up to an additional 3%, subject to IRS limits.

We maintain a program under which we provide employees who are eligible to participate in the 401(k) plan and whose compensation is greater than the amount that may be taken into account in any plan year as a result of the limits of Section 401(a)(17) of the Internal Revenue Code of 1986, as amended, with a payment equal to 8% of the employee's compensation in excess of the IRS limit. We established the plan to provide the same employee matching contribution described above to our higher-paid employees to the extent their compensation levels exceed the IRS 401(k) contribution limits.

We maintain a Deferred Compensation Plan under which our executive officers and directors, along with a group of highly compensated management and engineering employees, or fellows, are eligible to defer receipt of some or all of their cash compensation. Under our Deferred Compensation Plan, we also provide all participants (other than non-employee directors) with matching contributions equal to 8% of eligible contributions. We offer the Deferred Compensation Plan to give these employees the opportunity to save for retirement on a tax-deferred basis. See Non-Qualified Deferred Compensation Plan below.

The Analog Devices B.V. Executive Pension Plan is a defined-benefit pension plan covering all executive employees of our Irish subsidiaries, including Messrs. Marshall and McAdam. This plan is consistent with defined-benefit pension plans commonly offered in Ireland and, because our Irish executives are ineligible to participate in our U.S.-based 401(k) plan, we make this comparable plan available to them. This plan is described more fully below under Pension Benefits.

The ADBV Executive Investment Partnership Plan is a defined-contribution plan covering all executive employees of our Irish subsidiaries, including Messrs. Marshall and McAdam. This plan is consistent with defined-contribution plans commonly offered in Ireland, and because our Irish executives are ineligible to participate in our U.S.-based 401(k) plan, we make this comparable plan available to them. Under this plan, we will match employee contributions to the ADBV Executive Investment Partnership Plan, up to a maximum of 4% of their annual salary, subject to limits established by the Irish tax authorities.

Limited Perquisites

We offer very few perquisites to executive officers. The only perquisites that we provided to our executives in 2008 were automobiles for Messrs. Marshall and McAdam and tax and estate planning services for Mr. Fishman, which are detailed in the Summary Compensation Table below.

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Related Policies and Considerations

Agreements with Mr. Fishman

On November 14, 2005, we entered into an employment agreement with Mr. Fishman. Under the employment agreement, we agreed to continue to employ Mr. Fishman, and Mr. Fishman agreed to continue to serve, as our President and Chief Executive Officer for a term of five years. The employment agreement provides for an annual base salary subject to potential future increase by the Compensation Committee, and provides for the payment of annual bonuses and, until we entered into the 2007 long-term retention agreement described below, annual equity incentive awards as determined by the Compensation Committee. The employment agreement further required the Company to seek to establish a long-term retention arrangement for Mr. Fishman.

In October 2007, we entered into a long-term retention agreement with Mr. Fishman, or the 2007 retention agreement. The Compensation Committee designed this agreement to provide appropriate long-term incentives linking Mr. Fishman's compensation directly to our annual performance and also to encourage Mr. Fishman to remain as Chief Executive Officer through at least November 14, 2010, or the retention period. The incentives provided in the 2007 retention agreement are based on the Company's operating profit before taxes, or OPBT, and are in lieu of any future equity awards to Mr. Fishman during the retention period. OPBT is the same performance measure that the Compensation Committee uses to determine the Executive Bonus Plan described above as well as the bonuses we pay to all Analog Devices employees under the profit sharing plan.

The terms of the 2007 retention agreement are described below under [Retention, Employment and Other Agreements](#). For fiscal 2008, the amount credited to Mr. Fishman's account was \$3,624,058, which was based on the Company achieving an average OPBT level of 24.3% compared to its OPBT target of 22.5%. Amounts under the agreement will only be payable to Mr. Fishman if he remains employed by us through November 14, 2010.

The Compensation Committee approves our executive bonus plan for each fiscal year and establishes, in its sole discretion, the specific metrics applicable to the calculation of Mr. Fishman's annual bonus, which may vary from year to year. Mr. Fishman's annual bonus target percentage under each executive bonus plan during the retention period is 160% of his then annual base salary.

In establishing the terms of this arrangement, the Compensation Committee, with the assistance of PMP, reviewed the total compensation packages of chief executive officers in the 2007 Peer Group. The Compensation Committee decided, based on this review, that Mr. Fishman's total annualized compensation during the term of the agreement, including payments under the agreement, would be slightly below the 50th percentile of the comparable total compensation for chief executive officers in the 2007 Peer Group if the Company performed according to its annual bonus plan goals. Mr. Fishman would have the opportunity to achieve compensation significantly higher than the 50th percentile if the Company's performance exceeded its annual bonus plan goals.

See [Retention, Employment and Other Agreements](#) below for additional information about the terms of Mr. Fishman's employment agreement and his 2007 retention agreement.

Severance, Retention and Change in Control Benefits

We enter into change in control employee retention agreements with each of our executive officers and other key employees of the Company. Among other things, these retention agreements provide for severance benefits if the employee's service with us is terminated within 24 months after a change in control (as defined in each agreement) that was approved by our Board of Directors. We designed the change in control employee retention agreements to help ensure that our executive team is able to evaluate objectively whether a potential change in control transaction is in the

best interests of the Company and our shareholders, without having to be concerned about their future employment. These agreements also help ensure the continued services of our executive officers throughout the change in control transaction by giving them incentives to remain with us. The Compensation Committee reviewed prevalent market practices in determining the severance amounts and

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the basis for selecting events triggering payments under the agreements. The Compensation Committee also considered the benefit of the releases of claims that we would receive in exchange from the executive prior to the receipt of severance amounts.

In fiscal 2008, the Compensation Committee asked PMP, its compensation consultant, to review our severance, retention and change in control arrangements. PMP advised the Compensation Committee that our arrangements were consistent with market practice among its 2007 Peer Group. See [Retention, Employment and Other Agreements](#) below for additional information about these agreements.

In addition, under our 2006 Stock Option Plan, in the event of a change in control, all of our employees, including our Named Executive Officers (except Mr. Fishman), would have one-half of the shares of common stock subject to their then outstanding unvested options accelerate and become immediately exercisable. The remaining one-half of the unvested options would continue to vest in accordance with the original vesting schedules, provided that any remaining unvested options would vest and become exercisable if, on or prior to the first anniversary of the change in control, the employee is terminated without cause or for good reason (as defined in the plan). Under Mr. Fishman's employment agreement, all of his unvested outstanding stock options would become fully vested and exercisable in full at the time of any termination by the Company without cause or by Mr. Fishman for good reason, each as defined in the agreement. We have provided more detailed information about these benefits, along with estimates of their value under various circumstances, under the caption [Potential Payments Upon Termination or Change in Control](#) below.

Stock Option Grant Date Policy

We will not time or select the grant dates of any stock options or stock-based awards in coordination with our release of material non-public information, nor will we have any program, plan or practice to do so. The Compensation Committee has adopted the following specific policies regarding the grant dates of stock options and stock-based awards, which we refer to as awards, for our executive officers and employees:

New Hire Grants: The grant date of all awards to newly hired executive officers and employees is the 15th day of the month after the date on which the individual commences employment with us (or the next succeeding business day that the NYSE is open). The exercise price of all new hire awards equals the closing price of our common stock on the grant date.

Annual Grants: The Compensation Committee approves the annual award grants to our executive officers and employees at one or more meetings held after we file our Annual Report on Form 10-K and before December 31. The grant date of all annual awards is the 2nd business day following January 1 that the NYSE is open. The Compensation Committee has decided to fix the grant date of the annual awards in early January because it follows the conclusion of both our worldwide annual employee compensation review process and the December holiday season and thereby allows us to complete in a timely and efficient manner the numerous administrative and accounting requirements associated with the annual awards. The exercise price of all annual awards equals the closing price of our common stock on the grant date.

Other Grants: All other awards granted to existing executive officers and employees throughout the year (off-cycle awards) have a grant date of either: (1) the 15th day of the month (or the next succeeding business day that the NYSE is open) in which the award is approved, if the approval occurs before the 15th, or (2) the 15th day of the following month (or the next succeeding business day that the NYSE is open), if the approval occurs after the 15th day of the month. The exercise price of all off-cycle awards equals the closing price of our common stock on the grant date.

Blackout Periods: We do not grant off-cycle awards to our executive officers during the quarterly and annual blackout periods under our insider trading policy. The quarterly and annual blackout periods begin three weeks before the end of each fiscal quarter and end on the third business day after we announce our quarterly earnings.

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Tax and Accounting Considerations

Section 162(m) of the Internal Revenue Code of 1986, as amended, generally disallows a tax deduction to public companies for certain compensation in excess of \$1 million paid to the company's Chief Executive Officer and the other executive officers whose compensation is required to be disclosed to our shareholders under the Securities and Exchange Act of 1934 by reason of being among our most highly compensated officers (excluding the Chief Financial Officer). Certain compensation, including qualified performance-based compensation, will not be subject to the deduction limit if certain requirements are met. The Compensation Committee reviews the potential effect of Section 162(m) periodically and generally seeks to structure the long-term incentive compensation granted to our executive officers, except cash bonus awards, in a manner that is intended to avoid the disallowance of deductions under Section 162(m). Nevertheless, there can be no assurance that compensation attributable to awards granted under our plans will be treated as qualified performance-based compensation under Section 162(m). In addition, the Compensation Committee reserves the right to use its judgment to authorize compensation payments that may be subject to the limit when the Compensation Committee believes such payments are appropriate and in the best interests of the Company and its shareholders, after taking into consideration changing business conditions and the performance of its employees.

Our Named Executive Officers also have change in control employee retention agreements which contain provisions regarding Section 280G of the Internal Revenue Code. In addition, they are eligible to participate in our Deferred Compensation Plan, which contains provisions regarding Section 409A of the Internal Revenue Code. See [Retention, Employment and Other Agreements](#) below for additional information about these arrangements.

We expense in our financial statements the compensation that we pay to our executive officers, as required by U.S. generally accepted accounting principles. As one of many factors, the Compensation Committee considers the financial statement impact in determining the amount of, and allocation among the elements of, compensation. We account for stock-based compensation under our 2006 Stock Incentive Plan and all predecessor plans in accordance with the requirements of SFAS 123R.

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Summary Compensation

The following table contains certain information about the compensation that our Chief Executive Officer, Chief Financial Officer and three other most highly compensated executive officers earned in fiscal 2008 and fiscal 2007. We refer to these executive officers collectively as our Named Executive Officers.

Summary Compensation Table

Name and Principal Position	Fiscal Year	Salary \$(1)	Bonus	Option Awards	Non-Equity Incentive Plan Compensation	Non-Qualified Deferred Compensation	All Other Compensation	Total	Change in
									Pension Value and