

MONOLITHIC SYSTEM TECHNOLOGY INC  
Form DEF 14A  
October 07, 2004

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

**SCHEDULE 14A**

Proxy Statement Pursuant to Section 14(a) of  
the Securities Exchange Act of 1934 (Amendment No. )

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- 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

**MONOLITHIC SYSTEM TECHNOLOGY, INC.**

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(Name of Registrant as Specified In Its Charter)

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(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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(1) Amount Previously Paid:

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1020 Stewart Drive  
Sunnyvale, CA 94085

Dear Stockholder,

You are cordially invited to attend the 2004 Annual Meeting of Stockholders (the "Annual Meeting") of Monolithic System Technology, Inc. (the "Company"), to be held on November 11, 2004, 9:30 a.m., local time, at the Company's corporate headquarters located at 1020 Stewart Drive, Sunnyvale, California 94085.

The matters expected to be acted upon at the meeting are described in detail in the following Notice of the 2004 Annual Meeting of Stockholders and Proxy Statement.

It is important that your shares be represented and voted at the meeting. Whether you plan to attend the Annual Meeting or not, it is important that you promptly register your vote in accordance with the instructions set forth on the enclosed proxy card. A return addressed envelope is enclosed for your convenience. This will ensure your proper representation at the Annual Meeting. Returning the proxy does not deprive you of your right to attend the Annual Meeting. If you decide to attend the Annual Meeting and wish to change your proxy vote, you may do so automatically by voting in person at the meeting.

On behalf of our board of directors, I would like to express our appreciation for your continued interest in the affairs of the Company. We look forward to seeing you at the Annual Meeting.

Sincerely,

/s/ FU-CHIEH HSU

First mailed to stockholders  
on or about October 11, 2004

Fu-Chieh Hsu  
*Chairman of the Board, President and Chief Executive Officer*

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**YOUR VOTE IS IMPORTANT.  
PLEASE REMEMBER TO PROMPTLY RETURN YOUR PROXY.**

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**MONOLITHIC SYSTEM TECHNOLOGY, INC.  
NOTICE OF 2004 ANNUAL MEETING OF STOCKHOLDERS  
To be held on November 11, 2004**

To the Stockholders of Monolithic System Technology, Inc.:

NOTICE IS HEREBY GIVEN that the 2004 Annual Meeting of Stockholders (the "Annual Meeting") of Monolithic System Technology, Inc., a Delaware corporation (the "Company"), will be held on November 11, 2004, at 9:30 a.m., local time, at the Company's corporate headquarters located at 1020 Stewart Drive, Sunnyvale, California 94085, for the following purposes:

1. To elect six members of our board of directors to hold office until the next Annual Meeting of Stockholders or until their respective successors have been elected or appointed. The nominees are Fu-Chieh Hsu, Carl E. Berg, Tommy Eng, James D. Kupec, Chi-Ping Hsu and Wingyu Leung.
2. To approve the Company's Amended and Restated 2000 Stock Option and Equity Incentive Plan, including approval of its material terms for purposes of Internal Revenue Code Section 162(m).
3. To ratify the Audit Committee's appointment of Ernst & Young LLP as the Company's registered independent public accounting firm for the fiscal year ending December 31, 2004.
4. To transact such other business as may properly come before the Annual Meeting or any adjournment of the Annual Meeting.

The foregoing items of business are more fully described in the Proxy Statement accompanying this Notice. Our board of directors has fixed the close of business on October 1, 2004 as the record date for the determination of stockholders entitled to notice of and to vote at the Annual Meeting and at any adjournments of the Annual Meeting. A list of such stockholders will be available for inspection at the principal office of the Company.

You are cordially invited to attend the Annual Meeting. However, to ensure that you are represented at the Annual Meeting, please register your vote as promptly as possible in accordance with the instructions set forth on the enclosed proxy card. A return addressed envelope is enclosed for your convenience. If you attend the Annual Meeting, you may vote in person even though you have returned a proxy card previously. Your proxy is revocable in accordance with the procedures set forth in the Proxy Statement.

BY ORDER OF THE BOARD OF DIRECTORS

/s/ MARK VOLL

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Mark Voll  
*Secretary*

Sunnyvale, California  
October 11, 2004

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**MONOLITHIC SYSTEM TECHNOLOGY, INC.**

1020 Stewart Drive  
Sunnyvale, California 94085

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**PROXY STATEMENT**

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**GENERAL INFORMATION**

This Proxy Statement is furnished in connection with the solicitation by the board of directors of Monolithic System Technology, Inc., a Delaware corporation (the "Company"), of proxies, in the accompanying form, to be used at the 2004 Annual Meeting of Stockholders (the "Annual Meeting") to be held at the Company's corporate headquarters located at 1020 Stewart Drive, Sunnyvale, California 94085 on November 11, 2004, at 9:30 a.m., local time, and any adjournments of the Annual Meeting. Unless the context otherwise requires, the "Company," "we," "us," and similar terms refer to Monolithic System Technology, Inc.

This Proxy Statement and the accompanying proxy card are being mailed on or about October 11, 2004 to all stockholders entitled to notice of and to vote at the Annual Meeting.

**SOLICITATION AND VOTING PROCEDURES**

Shares represented by valid proxies in the form enclosed, received in time for use at the Annual Meeting and not revoked at or prior to the Annual Meeting, will be voted at the Annual Meeting, as discussed below. The presence, in person or by proxy, of the holders of a majority of the outstanding shares of our common stock is necessary to constitute a quorum at the Annual Meeting. Holders of our common stock are entitled to one vote per share on all matters. To vote in person, a stockholder must attend the Annual Meeting, and then complete and submit the ballot provided at the meeting. To vote by proxy, a stockholder must either mark, sign, and date the enclosed proxy card and mail it to the Company's transfer agent or submit a proxy electronically by using the Internet and logging on to [www.eproxyvote.com/mosy/](http://www.eproxyvote.com/mosy/) by following the instructions provided on the proxy card. An automated system administered by the Company's transfer agent tabulates stockholder votes submitted by proxy, and an officer of the Company will tabulate votes cast in person at the Annual Meeting.

Brokers holding shares in street name for customers have the authority to vote on certain matters when they have not received instructions from the beneficial owners of shares. Brokers that do not receive instructions from the beneficial owners are entitled to vote on Proposal No. 1 (the election of directors), and Proposal No. 3 (the ratification of appointment by the Audit Committee of Ernst & Young LLP as the Company's independent registered public accounting firm for the 2004 audit. Brokers that do not receive instructions from the beneficial owners regarding Proposal No. 2 (approval of Amended and Restated 2000 Stock Option and Equity Incentive Plan) are not entitled to vote on the proposal, and these are referred to as broker "non-votes."

The voting requirements for the proposals that we will consider at the Annual Meeting are as follows:

*Election of Directors.* Directors are elected by a plurality, and the six directors who receive the most votes will be elected to our board of directors. Votes withheld will not affect the election of directors.

*Approval of Amended and Restated 2004 Stock Option and Equity Incentive Plan.* An affirmative vote of the holders of a majority of the shares present or represented by proxy and entitled to vote at the Annual Meeting is necessary for approval of Proposal 2 to approve the Amended and

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Restated 2000 Stock Option and Equity Incentive Plan, as amended. Abstentions and broker "non-votes" will have the same effect as voting against the proposal.

*Ratification of Appointment of Ernst & Young LLP as Registered Independent Public Accounting Firm.*  An affirmative vote of the holders of a majority of the shares present or represented by proxy and entitled to vote at the Annual Meeting is necessary for approval of Proposal No. 3 to ratify the Audit Committee's appointment of Ernst & Young LLP as our independent registered public accounting firm for the audit of our fiscal 2004 financial statements. Abstentions will have the same effect as voting against the proposal.

All proxies will be voted as specified on the proxy cards submitted by stockholders, if the proxy is properly executed or electronically submitted and is received by the Company prior to the close of voting at the Annual Meeting or any adjournment or postponement of the Annual Meeting. If no choice has been specified, a properly completed and timely returned or electronically submitted proxy card will be voted for our board of directors' nominees and for Proposal Nos. 2 and 3, which are described in detail elsewhere in this Proxy Statement. In addition, all properly completed and timely returned or electronically submitted proxy cards will be voted by the proxies in their discretion for any other matters properly and timely submitted for a vote at the Annual Meeting.

The close of business on October 1, 2004 has been fixed as the record date for determining the stockholders entitled to notice of and to vote at the Annual Meeting. Only holders of our common stock at the close of business on October 1, 2004 will be entitled to notice of and to vote at the Annual Meeting. As of that date, we had 30,295,822 shares of common stock outstanding and entitled to vote. Each share of our common stock is entitled to one vote per share.

The cost of soliciting proxies, including expenses in connection with preparing and mailing of this Proxy Statement, will be borne by the Company. Copies of solicitation material will be furnished to brokerage houses, fiduciaries and custodians holding shares in their names that are beneficially owned by others so that they may forward this solicitation material to such beneficial owners. The Company will reimburse brokerage firms and other persons representing beneficial owners of common stock for their expenses in forwarding proxy material to such beneficial owners. Solicitation of proxies by mail may be supplemented by telephone, telegram, electronic facsimile transmission and other electronic means, and personal solicitation by the directors, officers or employees of the Company. No additional compensation will be paid to directors, officers or employees for such solicitation. The Company has retained Wells Fargo Shareowner Services to assist in the distribution of proxies for a fee estimated to be approximately \$4,000.00 plus reasonable out-of-pocket expenses.

Copies of the Company's 2003 annual report on Form 10-K are being mailed to stockholders with this Proxy Statement. Additional copies of the Company's 2003 annual report on Form 10-K, excluding exhibits, may be obtained by any stockholder without charge by making a request through the Company's website "Investor Information" pages at [www.mosys.com](http://www.mosys.com) or by written request addressed to: Investor Relations, Monolithic System Technology, Inc., 1020 Stewart Drive, Sunnyvale, California 94085.

### REVOCABILITY OF PROXIES

You can revoke your proxy at any time before the voting at the Annual Meeting by sending a properly signed written notice of your revocation to the Secretary of the Company, by submitting another proxy that is properly signed and bearing a later date, by following the specified procedures for submitting a proxy electronically and changing your vote, or by voting in person at the Annual Meeting. Attendance at the Annual Meeting will not itself revoke an earlier submitted proxy. You should direct any written

notices of revocation and related correspondence to Monolithic System Technology, Inc., 1020 Stewart Drive, Sunnyvale, California 94085, Attention: Secretary.

## MANAGEMENT

### Directors and Executive Officers

The names of our current directors and executive officers and certain information about them are set forth below.

Name	Age	Position(s) with the Company
Fu-Chieh Hsu	48	Chairman of the Board, President and Chief Executive Officer
Wingyu Leung	50	Executive Vice President, Chief Technical Officer and Director
Carl E. Berg(1)(2)	67	Director
Tommy Eng(1)(3)	46	Director
Chi-Ping Hsu(2)(3)	49	Director
James D Kupec(1)(2)(3)	49	Director
Mark Voll	50	Vice President, Finance & Administration, Chief Financial Officer and Secretary
Karen Lamar	43	Vice President Sales and Marketing

- (1) Member of Audit Committee
- (2) Member of Compensation Committee
- (3) Member of Technology Strategy Committee

*Fu-Chieh Hsu.* Dr. Hsu has served as our Chairman of the Board since September 1991 and as its President and Chief Executive Officer since April 1992. Dr. Hsu also served as our Chief Financial Officer from April 1992 until May 1996. Prior to joining us, Dr. Hsu was the President and Chairman of the Board of Myson Technology, Inc., a developer of high performance semiconductor products, from August 1990 to August 1991. From May 1985 to August 1990, Dr. Hsu served as Vice President and Chief Technology Officer of Integrated Device Technology, Inc., a developer of high performance semiconductor products and modules. Dr. Hsu holds a B.S. in electrical engineering from National Taiwan University and a M.S. and Ph.D. in electrical engineering from the University of California at Berkeley.

*Wingyu Leung.* Dr. Leung has served as our Executive Vice President, Engineering, and Chief Technical Officer and as a member of our board of directors since April 1992. Dr. Leung also served as our Secretary from April 1992 until May 1996 and again from May 1997 until August 2000. Prior to joining us, Dr. Leung served as a technology consultant to several high technology companies, including Rambus, Inc., a developer of a high-speed chip-to-chip interface technology. Prior to that time, Dr. Leung served as a member of the technical staff of Rambus, and as a senior engineering manager at Integrated Device Technology, Inc., where he managed and participated in circuit design activities. Dr. Leung holds a B.S. in electrical engineering from the University of Maryland, a M.S. in electrical engineering from the University of Illinois, and a Ph.D. in electrical engineering and computer science from the University of California at Berkeley.

*Carl E. Berg.* Mr. Berg has served as a member of our board of directors since September 1992. Since 1997, Mr. Berg has been the Chairman of the Board and Chief Executive Officer of Mission West Properties, Inc., a real estate investment trust. Mr. Berg has been actively engaged in the ownership, development and management of industrial real estate and in venture capital investment for over 30 years. He currently serves as a member of the board of directors of Mission West Properties, Inc., Valence Technology, Inc., a developer of advanced rechargeable battery technology, FOCUS Enhancements, Inc., a developer of video scan conversion products, and Systems Integrated Research Plc, a provider of educational software. Mr. Berg holds a B.A. in business from the University of New Mexico.

*Tommy Eng.* Mr. Eng was appointed to our board of directors on August 12, 2004. Mr. Eng is the founder of Tera Systems, a privately-held EDA company. He held various management positions, including President, CEO and Vice Chairman from 1996 to 2004. Prior to founding Tera Systems, Mr. Eng was General Manager of Mentor Graphics' Advanced IC Design Automation and Design Consultation division as the result of the acquisition of Silicon Compiler Systems. Mr. Eng received a M.S. in electrical engineering from the University of California at Berkeley. Mr. Eng also serves on the board of directors of Focus Enhancements, Inc.

*Chi-Ping Hsu.* Dr. Hsu was appointed to our board of directors on August 12, 2004. Dr. Hsu is currently a Vice President at Cadence Design Systems in charge of the company's synthesis product lines which position he has held since April 2003. From November 2001 to April 2003, Dr. Hsu was President and Chief Operating Officer of Get2Chip, a supplier of high-performance system-on-chip (SOC) synthesis, which was acquired by Cadence. From January 1995 to November 2001, Dr. Hsu was a member of the Executive Staff at Avant! where he was responsible for directing the company's product and business strategy. A graduate of the Taiwan National University with a B. S. in electrical engineering, Dr. Hsu holds a Ph.D. in electrical engineering and computer science from the University of California at Berkeley.

*James D Kupec.* Mr. Kupec was appointed to our board of directors on August 12, 2004. Mr. Kupec is currently Chief Operating Officer of eSilicon Corporation, a custom semiconductor chip supplier. From April 2003 to September 2004, Mr. Kupec was President of JDK Group, a semiconductor consultancy firm that he founded since April 2003. From April 2002 to April 2003, Mr. Kupec served as CEO of Ammocore, a privately-held EDA company. Mr. Kupec was President of UMC (USA) the U. S. subsidiary of the wafer foundry United Microelectronics Corporation from 1998 to 2002. Mr. Kupec served in senior management positions at Cypress Semiconductor for 14 years, last serving as Senior Vice President where he directed the activities for four major product groups. Mr. Kupec has a B.S. in electrical engineering from the University of Illinois and a M.B.A. from Southern Methodist University.

*Mark Voll.* Mr. Voll has served as our Vice President of Finance and Administration and Chief Financial Officer since June 2002. Mr. Voll previously held the same position with us from March 1998 to June 2000. From June 2000 to May 2002, Mr. Voll served as the Chief Financial Officer for Axis Systems, Inc., a developer of semiconductor verification tools. Mr. Voll holds a B.S. in business administration from Providence College.

*Karen Lamar.* Ms. Lamar became our Vice President of Sales and Marketing on September 8, 2004. Ms. Lamar held the position of Vice President of Sales at SuperH, a semiconductor intellectual property licensing company that is a joint venture between Renesas Technology and ST Microelectronics from June 2003 to August 2004. From September 2000 to June 2003, Ms. Lamar held the position of Vice President of Worldwide Strategic Account Sales at Arc International. Ms. Lamar held the position of



Senior Partner Manager at Advanced RISC Machines (ARM) and was responsible for negotiating licensing transaction with strategic customers from May 1999 to September 2000. Ms. Lamar holds a B.S. in Biology and a M.S. in Electrical Engineering from Boston University.

### **Composition of the Board and Committees**

Our bylaws provide that the number of directors is determined by resolution of the board of directors until changed by approval of the stockholders or a majority of the directors. The number of directors is currently set at six. Each director is elected to serve until the next annual meeting of stockholders, and until the election and qualification of his or her successor or his or her earlier resignation or removal.

#### *Majority of Independent Directors*

Our board of directors has determined that Carl E. Berg, Tommy Eng, Chi-Ping Hsu and James D. Kupec are "independent," as defined under the rules of the National Association of Securities Dealers, Inc., "NASD"). Our board of directors has standing Audit, Compensation and Technology Strategy Committees, each of which is comprised solely of independent directors in accordance with the rules of the NASD.

#### *Audit Committee*

Messrs. Berg, Eng and Kupec are the current members of the Audit Committee. Mr. Berg serves as the Chairman of the committee. The board of directors has determined that Mr. Berg is the "audit committee financial expert," as defined by applicable SEC rules, but that status does not impose on him duties, liabilities or obligations that are greater than the duties, liabilities or obligations otherwise imposed on him as a member of the Audit Committee and the board of directors. Our board of directors established the Audit Committee for the purpose of overseeing the accounting and financial reporting processes and audits of the Company's financial statements. The Audit Committee also is charged with reviewing reports regarding violations of our Code of Ethics and complaints with respect thereto and internal control violations under our whistleblower policy are directed to the Chairman of the Audit Committee. The responsibilities of the Audit Committee are described in the Audit Committee charter which is attached as Appendix A to this Proxy Statement. The Audit Committee has delegated authority to Mr. Berg for review and approval of non-audit services proposed to be provided by our principal auditors.

#### *Compensation Committee*

Messrs. Berg, Chi-Ping Hsu and Kupec are also the current members of the Compensation Committee, with Mr. Kupec serving as the Chairman of the committee. Our Compensation Committee is responsible for reviewing, recommending and approving our compensation policies and benefits, including the compensation of Fu-Chieh Hsu, our Chief Executive Officer, and the compensation of all of our other executive officers. Our Compensation Committee also has the principal responsibility for the administration of our stock option plan, including approving stock option grants to executives, and our stock purchase plan.

#### *Nominations Process*

We do not have a nominating committee. Our board of directors instead has appointed Messrs. Berg, Eng, Chi-Ping Hsu and Kupec, who are all of the board's independent directors to assist the board in the search for and evaluation of qualified individuals to become nominees for director and board committee

members. The independent directors recommend candidates for nomination for election or reelection for each annual meeting of stockholders and as necessary to fill vacancies and newly created directorships, and candidates for appointment to and removal from committees. The independent directors operate by resolution of the board, rather than by charter.

The independent directors evaluate each candidate for nomination as director within the context of the needs and the composition of the board as a whole. The independent directors conduct any appropriate and necessary inquiries into the backgrounds and qualifications of candidates. When evaluating a candidate for nomination as director, the independent directors consider the candidate's business experience and skills, independence, judgment and ability and willingness to commit sufficient time and attention to the activities of the board. At a minimum, candidates recommended for nomination must possess the highest personal and professional ethics, integrity and values and be committed to representing the long-term interests of the Company and its stockholders. To date, the Company has not paid any fee to a third party to assist in the process of identifying or evaluating director candidates.

The Independent Directors will consider candidates for nomination as director who are recommended by the Company's stockholders. The Independent Directors will not evaluate any candidate for nomination as director differently solely because the candidate was recommended by a stockholder. To recommend a prospective candidate for consideration by the Independent Directors, stockholders of the Company should submit the candidate's name and qualifications to the Independent Directors in writing at the following address: Monolithic Systems Technology, Inc., 1020 Stewart Drive, Sunnyvale, California 94058, Attention: Secretary. The Secretary will then forward this information to each Independent Director. To date, no candidate has been recommended by any stockholder or group of stockholders owning more than five percent of our common stock.

#### *Technology Strategy Committee*

Messrs. Eng, Chi-Ping Hsu and Kupec are the current members of the Technology Strategy Committee. Mr. Eng is Chairman of this committee. Our board of directors established the Technology Strategy Committee in August 2004 to oversee the development, planning and implementation of the Company's long-term intellectual property strategy. Mr. Eng meets frequently with senior management and convenes meetings of the full committee as he determines necessary or appropriate.

#### *Stockholder Communications with the Board*

Stockholders who desire to communicate with the board, or to a specific director, may do so by delivering the communication addressed to either the board of directors or any director, c/o Monolithic System Technology, Inc., 1020 Stewart Drive, Sunnyvale, California 94058. These communications will be delivered to the board, or any individual director, as specified.

We have a policy that each director should make every reasonable effort to attend each annual meeting of stockholders. At the Company's 2003 annual meeting of stockholders, two of our directors were in attendance.

#### *Meetings of the Board and Committees.*

During the fiscal year ended December 31, 2003, including telephonic meetings, there were four meetings of the board of directors, four meetings of the Audit Committee and four meetings of the Compensation Committee. Every director attended at least 75% of the meetings of the board and each committee held during the period for which he was a director during the fiscal year ended December 31,

2003. In addition, the members of the board of directors, the Compensation Committee and the Audit Committee acted at times by unanimous written consent pursuant to Delaware law.

### **Compensation of Directors**

In 2003, members of our board of directors did not receive any compensation for their services as directors. In August 2000, we granted options to purchase 10,000 shares of common stock to Mr. Berg for the years beginning in each March of 1997 through 2002 under our 1996 Stock Option Plan. We granted options to purchase 10,000 shares of common stock in each of five consecutive years to Dr. Yen for the years beginning in each August from 2000 through 2004. His options stopped vesting when he left the board in April 2004 and expired without exercise. All of these options vested during each year at a rate of approximately 833 shares each month.

Our 2000 Stock Option Plan currently provides that options will be granted to non-employee directors pursuant to an automatic, nondiscretionary grant mechanism. Each non-employee director receives automatically a grant of an option to purchase 10,000 shares of common stock each year at an exercise price set at the fair market value of the Common Stock on the date of grant. These options vest at a rate of approximately 833 shares each month. Pursuant to this provision, the Company granted options in 2003 to Mr. Berg to purchase 10,000 shares of Common Stock, which options begin vesting in March 2005. In August 2004, the board of directors authorized initial option grants to each of Messrs. Eng, Kupec and Chi-Ping Hsu to purchase 40,000 shares of our common stock, at an exercise price equal to the fair market value on the date of grant as initial option grants to newly appointed non-employee directors, which number of shares is consistent with our past practice in awarding option grants to new non-employee directors. These options vest ratably on a monthly basis from August 2004 through August 2008, subject to the director's continued service on our board of directors.

Under the proposed Amended and Restated 2000 Stock Option and Equity Incentive Plan, which we are asking the stockholders to approve in Proposal No. 2, the number of shares that may be granted automatically to each non-employee director for each year of service on our board, will be increased from 10,000 to 20,000 shares to be awarded as of the date of each annual meeting of stockholders, beginning with this Annual Meeting. This increase would benefit all four non-employee directors nominated for election at the annual meeting, Messrs. Berg, Kupec, Chi-Ping Hsu and Eng, if they are elected by the stockholders. Subject to stockholder approval of the Amended and Restated 2000 Stock Option and Equity Incentive Plan and the election of these nominees to the board, under the amended plan the initial option grants to Messrs. Eng, Kupec and Chi-Ping Hsu as newly appointed non-employee directors will be increased by 40,000 shares, which will vest over the same 48-month period as their initial option grants. In addition, the Amended and Restated 2000 Stock Option and Equity Incentive Plan provides that the board of directors, in its discretion, may authorize additional option grants for up to 40,000 shares per year to each non-employee director and such number of additional shares to be awarded or granted under stock options to committee chairs and other non-employee directors for extraordinary service on the board of directors as a disinterested majority of the directors may determine in its discretion. Pursuant to this latter authority, if the stockholders approve Proposal No. 2, Mr. Eng will receive an option grant to purchase an additional 80,000 shares of common stock, which shares will vest ratably on a monthly basis over the four-year period from August 2004 through August 2008.

## EXECUTIVE COMPENSATION

## Summary Compensation Table

The following Summary Compensation Table sets forth summary information as to compensation received by our Chief Executive Officer and each of the four other most highly compensated persons who were serving as executive officers of the Company as of December 31, 2003 (collectively, the "named executive officers") for services rendered to us in all capacities during the three fiscal years ended December 31, 2003.

Name	Year	Annual Compensation		Long-term Compensation
		Salary (\$)	Bonus (\$)	Securities Underlying Options
Fu-Chieh Hsu Chairman of the Board, President and Chief Executive Officer	2003	\$ 279,108	\$ 72,663	113,621
	2002	266,167	73,979	81,691
	2001	238,000	57,040	60,000
Wingyu Leung Executive Vice President, Chief Technical Officer and Director	2003	232,950	58,130	92,897
	2002	221,833	65,123	67,353
	2001	198,000	57,040	50,000
Mark-Eric Jones(1) Vice President and General Manager Intellectual Property	2003	206,792	29,065	61,448
	2002	197,000	36,273	48,676
	2001	184,000	35,650	40,000
Andre Hassan(2) General Manager Discrete Products	2003	171,871	29,065	61,448
	2002	160,250	34,417	48,676
	2001	148,875	35,650	40,000
Mark Voll(3) Vice President, Finance & Administration, Chief Financial Officer and Secretary	2003	178,238	2,085	26,710
	2002	87,500		200,000

- (1) Mr. Jones resigned his position with us in July 2004.
- (2) Mr. Hassan resigned his position with us in August 2004.
- (3) Mr. Voll was appointed Vice President, Finance and Administration, Chief Financial Officer and Secretary in June 2002.

**Option Grants in Last Fiscal Year**

The following table provides information regarding the grant of stock options during fiscal year 2003 to the named executive officers.

	Number of securities underlying options granted(1)	% of total options granted to employees in 2003(2)	Exercise Price(3)	Expiration Date	Potential realizable value at assumed annual rates of stock price appreciation for option term(4)	
					5%	10%
Fu-Chieh Hsu	53,621	5.03%	\$ 6.89	4/16/2013	\$ 232,344	\$ 588,806
	60,000	5.63%	9.81	9/2/2013	370,167	938,077
Wingyu Leung	42,897	4.03%	6.89	4/16/2013	185,876	471,047
	50,000	4.69%	9.81	9/2/2013	308,473	781,731
Mark-Eric Jones(5)	21,448	2.01%	6.89	10/30/2004	92,936	235,518
	40,000	3.75%	9.81	10/30/2004	246,778	625,385
Andre Hassan(5)	21,448	2.01%	6.89	11/13/2004	92,936	235,518
	40,000	3.75%	9.81	11/13/2004	246,778	625,385
Mark Voll	1,710	0.16%	6.89	4/16/2013	7,410	18,777
	25,000	2.35%	9.81	9/2/2013	154,236	390,865

- (1) Options are incentive stock options to the extent qualified and nonstatutory options otherwise. All of the options have a 10-year term and generally terminate if not exercised with 90 days following the executive's employment with the Company or the expiration date, whichever occurs earlier. Each of the named executive officers in the table received an option grant under the 2000 Stock Option Plan on September 2, 2003. Those options vest as to 1/4<sup>th</sup> of the shares subject to each option on the first anniversary of the grant date and 1/36<sup>th</sup> of the shares subject to each option vest monthly thereafter. In addition, on April 16, 2003 each of such named executive officers received additional options under the 2000 Stock Option Plan as bonuses for the Company's performance as measured against certain pre-established performance goals for each officer. The bonus stock options were immediately vested as to 50% of the shares of common stock on the grant date. The remaining option shares vest ratably each month over the two-year period following the grant date, subject to continued service.
- (2) The percentage of total options granted is based upon options to purchase an aggregate of 1,065,624 shares of common stock granted during the fiscal year ended December 31, 2003 to our employees, including the named executive officers and outside Directors.
- (3) All options were granted at an exercise price equal to the fair market value of our common stock on the grant date. Fair market value for the two groups of option grants was equal to the closing price on the Nasdaq National Market on April 16, 2003 and September 2, 2003, respectively.
- (4) Potential realizable value has been calculated by assuming that the market price of our common stock appreciates 5% and 10% each year from the date of grant of the options until the expiration of the options. These assumed annual rates of appreciation were used in compliance with the rules of the SEC and are not intended to forecast future price appreciation of our common stock. The actual value realized from the options could be substantially higher or lower than the values reported above, depending upon the future appreciation or depreciation of our common stock during the option period and the timing of the exercise of the options. Unless the executive officer remains employed until he vests in the option shares and the market price of our common stock appreciates over the option term, no value will be realized from the option grants made to the executive officers.
- (5) These named executive officers are no longer employed by us.



**Aggregated Option Exercises in Last Fiscal Year and Fiscal Year-End Values**

The following table provides information regarding the aggregate exercises of options by each of the named executive officers. In addition, this table includes the number of shares covered by both exercisable and unexercisable stock options as of December 31, 2003, and the value of "in-the-money" options, which values represent the positive spread between the exercise price of any such options and the fiscal year-end value of our common stock.

	Shares acquired on exercise	Value Realized(1)	Number of Securities Underlying Unexercised Options At December 31, 2003		Value of in-the Money Options At December 31, 2003(3)	
			Exercisable(2)	Unexercisable	Exercisable	Unexercisable
Fu-Chieh Hsu		\$	287,088	143,224	\$ 1,078,250	\$ 34,598
Wingyu Leung	30,000	183,300	201,337	118,913	607,263	27,916
Mark-Eric Jones(4)	97,500	752,345	291,126	90,498	1,526,786	14,907
Andre Hassan(4)	50,000	508,500	191,355	89,769	808,417	14,491
Mark Voll			76,140	150,570	1,915	958

- (1) Value based on the fair market value of our common stock on the date of exercise less the option exercise price.
- (2) Pursuant to the option agreements for option grants made under the Company's 1996 Stock Plan, the option holders were entitled to elect to exercise all or any part of their vested and unvested options at any time. Any shares of our common stock received by the optionee on exercise of unvested options become subject to the Company's right of repurchase pursuant to a restricted stock purchase agreement. The number of shares so obtained that are subject to the Company's right of repurchase decreases over time in accordance with the vesting schedule applicable to the unvested options exercised. Accordingly, all options granted to the named executive officers under the 1996 plan are deemed to be exercisable for the purpose of the following table, even though Messrs. Hsu, Leung, Jones and Hassan had 4,687, 4,167, 3,750, and 3,021 unvested shares, respectively, subject to repurchase at December 31, 2003.
- (3) Value based on the fair market value of our common stock of \$8.57 on December 31, 2003, less the option exercise price.
- (4) There named executives officers are no longer employed by us.

**Employment Contracts, Termination of Employment and Change-in-Control Agreements**

We currently have confidentiality and invention assignment agreements in place with the named executive officers. We do not, however, have any compensatory plan or arrangement with any named executive officer that is activated upon the resignation, termination or retirement of any of these executive officers, or in the event there is a change in control of the Company.

**SHARE OWNERSHIP**

The following table sets forth certain information as of August 31, 2004, concerning the ownership of our common stock by:

each stockholder known by us to be the beneficial owner of more than 5% of the outstanding shares of our common stock;

each current member of our board of directors;

each named executive officer; and

all current directors and executive officers as a group.

Beneficial ownership is determined in accordance with Rule 13d-3 of the Securities Exchange Act of 1934, as amended, and includes all shares over which the beneficial owner exercises voting or investment power. Options and warrants to purchase common stock that are presently exercisable or exercisable within 60 days of August 31, 2004 and are included in the total number of shares beneficially owned for the person holding those options or warrants are considered outstanding for the purpose of calculating percentage ownership of the particular holder. We have relied on information supplied by our officers, directors and certain stockholders and on information contained in filings with the SEC. Except as otherwise indicated, and subject to community property laws where applicable, we believe, based on information provided by these persons, that the persons named in the table have sole voting and investment power with respect to all shares of common stock shown as beneficially owned by them.

Name of Principal Stockholders(1)	Number of Shares Beneficially Owned	Shares Issuable on Exercise of Outstanding Options Within 60 days of August 31, 2004	Percent of Outstanding Shares(2)
1981 Kara Ann Berg Trust, Clyde J. Berg, Trustee(3) 10050 Bandley Drive, Cupertino, CA 94014	2,304,830		7.3%
<b>Current Directors</b>			
Fu-Chieh Hsu(4)	3,792,359	352,359	11.9%
Wingyu Leung(5)	3,124,092	255,512	9.9%
Carl E. Berg(6)	205,829	75,833	*
Tommy Eng	3,334	3,334	*
Chi-Ping Hsu	1,667	1,667	*
James D. Kupec	1,667	1,667	*
<b>Named Executive Officer who is not a Director</b>			
Mark Voll	167,017	127,017	*
All current directors and executive officers as a group (7 persons)	7,295,965	817,389	22.6%

\*

Represents holdings of less than one percent.

(1)

Unless indicated otherwise, the address of each person listed in the table is c/o Monolithic System Technology, Inc., 1020 Stewart Drive, Sunnyvale, California 94085.

(2)



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The percentage of beneficial ownership is based on 31,441,922 shares of common stock outstanding as of August 31, 2004 and excluding all shares of common stock issuable upon the exercise of

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outstanding options other than the shares issuable upon the exercise of options held and exercisable within 60 days of August 31, 2004 by the named person.

- (3) Clyde J. Berg is Carl E. Berg's brother, and Carl Berg's adult daughter is the sole beneficiary of this trust. Mr. Berg disclaims beneficial ownership of all these shares.
- (4) Fu-Chieh Hsu has sole voting and dispositive authority over 2,920,000 shares which he personally owns (in addition, he may purchase up to 352,359 shares pursuant to options exercisable within 60 days of August 31, 2004). Fu-Chieh Hsu shares voting and dispositive authority as a trustee with co-trustee Adela Lee over 240,000 shares held in trust for the benefit of his son, Percy Alexander Hsu (the "Percy Trust"); he shares voting and dispositive authority as a trustee with co-trustee Adela Lee over 240,000 shares held in trust for the benefit of his son, Jerone Lee Hsu (the "Jerone Trust"); he is deemed to beneficially own 20,000 shares held directly by Percy Alexander Hsu; and he is deemed to beneficially own 20,000 shares held directly by Jerone Lee Hsu. Fu-Chieh Hsu disclaims beneficial ownership of the 240,000 shares held by the Percy Trust, the 240,000 shares held by the Jerone Trust, the 20,000 shares held by Percy Alexander Hsu and the 20,000 shares held by Jerone Lee Hsu as he has no economic interest in any of these shares.
- (5) Wingyu Leung has sole voting and dispositive authority over 2,250,680 shares which he personally owns (in addition, he may purchase up to 255,512 shares pursuant to options exercisable within 60 days of August 31, 2004). Wingyu Leung shares voting and dispositive authority as a trustee with co-trustee Louise Shun-Yan Leung over 300,000 shares held in trust for the benefit of his son, Michael Pak Shing Leung (the "Michael Trust"); and he shares voting and dispositive authority as a trustee with co-trustee Louise Shun-Yan Leung over 300,000 shares held in trust for the benefit of his son, Matthew Pak-Ling Leung (the "Matthew Trust"). In addition, Wingyu Leung's wife owns 17,900 shares. Wingyu Leung disclaims beneficial ownership of the 300,000 shares held by the Michael Trust, the 300,000 shares held by the Matthew Trust and 17,900 shares owned by his wife as he has no economic interest in any of these shares.
- (6) Includes 124,998 shares held by Berg & Berg Enterprises, LLC, of which Mr. Berg is the sole manager. Mr. Berg disclaims beneficial ownership of these shares, except to the extent of his pecuniary interest in them. Also includes 4,998 shares owned by Mr. Berg's wife. Mr. Berg disclaims beneficial ownership of these shares. Mr. Berg's business address is 10050 Bandley Drive, Cupertino, CA 95014.

**PERFORMANCE GRAPH  
COMPARISON OF STOCKHOLDER RETURN**

The following graph compares cumulative total stockholder return on our common stock with that of the S&P 500 Index and the S&P Technology Sector Index. The comparison assumes that \$100 was invested on June 28, 2001 (the date of the Company's initial public offering) in our common stock, the stocks included in the S&P 500 and the stocks included in the S&P Technology Sector Index.

The comparisons shown in the graph below are based upon historical data, and the Company cautions that the stock price performance shown in the graph below is not indicative of, nor intended to forecast, the potential future performance of our common stock. Information used in the graph was obtained from Standard and Poor's website, a source believed to be reliable, but the Company is not responsible for any errors or omissions in such information.

**COMPARISON OF 30 MONTH CUMULATIVE TOTAL RETURN AMONG  
MONOLITHIC SYSTEM TECHNOLOGY, INC., THE S&P 500 INDEX AND THE  
S&P TECHNOLOGY SECTOR INDEX**

	Cumulative Total Return			
	6/28/2001	12/31/2001	12/31/2002	12/31/2003
MONOLITHIC SYSTEM TECHNOLOGY, INC.	100.00	206.00	120.80	85.70
S & P 500	100.00	93.63	71.75	90.68
S & P TECHNOLOGY SECTOR	100.00	89.44	55.83	81.82

**CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

Since January 1, 2003, the Company has not entered into any material transaction with any of its directors, executive officers or holders of more than 5% of the Company's Common Stock, or with any persons in which directors, executive officers or such stockholders have direct or indirect material interests.

## SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires our directors, executive officers and persons who own more than 10% of a registered class of the Company's equity securities to file with the SEC initial reports of ownership and reports of changes in ownership of common stock and other equity securities of ours. Directors, executive officers and greater than 10% holders are required by SEC regulation to furnish us with copies of all Section 16(a) reports they file. Based solely on our review of Forms 3 and 4 received during 2003 and Forms 5 (or any written representations) received with respect to fiscal year 2003, we believe that all directors, executive officers and 10% stockholders complied with all applicable Section 16(a) filing requirements during 2003.

## REPORT ON EXECUTIVE COMPENSATION BY THE COMPENSATION COMMITTEE OF THE BOARD OF DIRECTORS

In 2003, the Compensation Committee consisted of Carl Berg and Wei Yen. In April 2004, Mr. Yen resigned from our board of directors. In August 2004, Chi-Ping Hsu and James D. Kupec were appointed to our board of directors and the Compensation Committee.

### Compensation Philosophy

Our executive compensation policy is designed to attract and retain qualified executive personnel by providing executives with a competitive total compensation package based in large part on the executive's contribution to our financial and operational success, the executive's personal performance and increases in stockholder value as measured by our stock price.

### Compensation Program

The compensation package for our executive officers comprises the following three components:

*Base Salary.* The Compensation Committee determines the base salary of each executive based on the executive's scope of responsibility, past accomplishments and experience and personal performance, internal comparability considerations and data regarding the prevailing compensation levels for comparable positions in relevant competing executive labor markets. The Compensation Committee may give different weight to each of these factors for each executive, as it deems appropriate. In selecting comparable companies for the purpose of setting competitive compensation for executives, the Compensation Committee considers many factors not directly associated with stock price performance, such as geographic location, annual revenue and profitability, organizational structure, development stage and market capitalization.

*Annual Incentive Compensation.* In 2003 and prior years, each of the executive officers could earn annual bonuses set at a percentage of his or her base salary on the basis of the Company's performance as measured against certain pre-established performance measures, principally revenues, and the attainment of individual objectives set for each officer, other than the CEO, based upon the CEO's recommendations. The Compensation Committee established the performance objectives for the CEO. Based on performance against their objectives certain executive officers received bonus payments in 2003.

*Stock Options.* The Compensation Committee believes that granting stock options to executives and other key employees on an ongoing basis gives them a strong incentive to maximize stockholder value and aligns their interests with those of other stockholders. The Compensation Committee determines stock option grants under the 2000 Stock Option Plan to all executive officers and employees

of the Company. In determining the size of stock option grants under the annual bonus program for officers, the Compensation Committee takes into account the executive's current position with and responsibilities to the Company in setting the annual target grant. The percentage of the target grant awarded to the officer depends upon the Company's performance against specified revenue, net income and intellectual property licensing revenue objectives for each half of the fiscal year. Generally, each stock option grant allows the executive to purchase shares of common stock at a price per share equal to the market price on the date the option is granted, but the Compensation Committee has the power to grant options at a lower price if considered appropriate under the circumstances. Each stock option grant generally becomes exercisable, or vests, in installments over time, contingent upon the executive's continued employment with the Company.

In 2003, the Compensation Committee approved stock bonus grants under the 2000 Stock Option Plan to certain executive officers based upon the Company's performance as measured against certain pre-established performance goals for each officer during the second half of 2002. Those options vest 50% immediately and the remaining 50% vests monthly over two years. The exercise price was equal to the fair market value of the common stock on the grant date. The Compensation Committee determined that executive officers, including the CEO, will not be eligible to receive bonus option grants with respect to the Company's performance during fiscal 2003.

*Compensation of Chief Executive Officer.* In 2003, the compensation for Fu-Chieh Hsu, the Company's CEO, was comprised of the three components described above, and is reviewed annually. In setting Dr. Hsu's compensation package for fiscal year 2003, the Compensation Committee intended to provide a base salary competitive with that paid to other chief executive officers in competing executive labor markets, and to make a significant portion of the total compensation package contingent upon the Company's financial and operational performance. During 2003, Dr. Hsu received a base salary of \$279,108. Dr. Hsu was awarded a total cash bonus of approximately \$72,663 based primarily on the achievement of financial and operational targets.

*Compliance with Internal Revenue Code Section 162(m).* Section 162(m) of the Internal Revenue Code generally disallows a tax deduction to publicly-held companies for compensation paid to certain executive officers, to the extent that compensation paid to the officer exceeds \$1 million during the Company's taxable year. The compensation paid to the Company's executive officers for the year ended December 31, 2003 did not exceed the \$1 million limit per officer. In addition, the Company's employee stock option plans and option grants to executives have been structured so that any compensation deemed paid to an executive officer in connection with the exercise of his or her outstanding options with an exercise price per share equal to the fair market value per share of the common stock on the grant date will qualify as performance-based compensation that will not be subject to the \$1 million limitation. The Compensation Committee does not expect to take any action at this time to modify cash compensation payable to the executive officers that would result in the application of Section 162(m).

The Compensation Committee of the Board of  
Directors:

James D. Kupec (Chairman)  
Carl E. Berg  
Chi-Ping Hsu

## COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

The Compensation Committee of the board of directors is responsible for determining salaries, incentives and other forms of compensation for directors, officers and other employees, and administers our incentive compensation and benefit plans. During 2003, none of our executive officers served as a member of the board of directors or compensation committee of any entity that had one or more of its executive officers serving as a member of our board of directors or Compensation Committee. Messrs. Berg, Chi Ping Hsu and Kupec were not officers or employees of ours during 2003, or at any other time.

## SPECIAL NOTE

Notwithstanding anything to the contrary set forth in any of the Company's previous or future filings under the Securities Act of 1933, as amended, or the Exchange Act that might incorporate this Proxy Statement or future filings made by the Company under those statutes, the Audit Committee Report (including reference to the independence of the Audit Committee members), the Report on Executive Compensation by the Compensation Committee and the Performance Graph are not deemed filed with the SEC and shall not be deemed incorporated by reference into any of those prior filings or into any future filings made by the Company under those statutes unless specifically so provided in any such filing.

## AUDIT COMMITTEE REPORT

The Audit Committee reviews, acts on and reports to the board of directors with respect to various auditing and accounting matters. The Audit Committee also monitors the performance of the independent auditors, and reviews the audit report on the consolidated financial statements following completion of the audit and the accounting practices of the Company with respect to internal accounting and financial controls. Management has primary responsibility for the Company's financial statements and the overall reporting process, including the Company's system of internal controls. The independent auditors audit the financial statements prepared by management, express an opinion as to whether those financial statements fairly present the financial position, results of operations and cash flows of the Company in conformity with accounting principles generally accepted in the United States and discuss with the Audit Committee any issues they believe should be raised with us. The Audit Committee's responsibilities under the Audit Committee charter adopted by the board of directors effective August 15, 2000 and amended as of February 22, 2004, include the selection or dismissal of the independent auditors, review of the scope of the annual audits, and approval of fees to be paid to the independent auditors.

The Audit Committee charter as amended to date, is attached to this proxy statement as Appendix A and also can be found through our website [www.mosys.com](http://www.mosys.com).

During the fiscal year ended December 31, 2003, Mr. Berg and Dr. Wei Yen served on the Audit Committee for the entire year. Dr. Yen served on the Audit Committee until April 2004. Paul Russo served on the Audit Committee until the end of August 2003.

The Audit Committee reviewed and discussed the audited financial statements of the Company for fiscal year 2003 with management and Ernst & Young LLP ("E&Y"), the Company's independent auditors. The Audit Committee discussed with E&Y matters required to be discussed by Statement on Auditing Standards No. 61 (Communication with Audit Committees). E&Y provided the Audit Committee the written disclosures required by Independence Standards Board Standard No. 1 (Independence

Discussions with Audit Committees). The Audit Committee has discussed E&Y's independence with members of that firm. The Audit Committee received written confirmations from management with respect to the non-audit services provided by E&Y and has considered whether the provision of such services is compatible with maintaining the auditor's independence. The Audit Committee has determined that the rendering of such services by E&Y is compatible with maintaining the auditors' independence.

Based on the discussions with E&Y concerning the audit, the independence discussions and the financial statement review, and such other matters deemed relevant and appropriate by the Audit Committee, the Audit Committee recommended to the board of directors that MoSys the Company's financial statements for the fiscal year ended December 31, 2003 be included in its 2003 Annual Report on Form 10-K filed with the SEC.

The Audit Committee of the Board of Directors:

Carl E. Berg (Chairman)

Tommy Eng

James D. Kupec

17

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**PROPOSAL NO. 1:  
ELECTION OF DIRECTORS**

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At the Annual Meeting, six directors (constituting our entire board of directors) are to be elected to serve until the next annual meeting of stockholders and until a successor for such director is elected and qualified, or until the death, resignation or removal of such director. There are six nominees, all of whom are currently directors of the Company.

**NOMINEES**

Set forth below is information regarding the nominees for election to our board of directors:

Name	Position(s) with the Company	Year First Elected Director
Fu-Chieh Hsu	Chairman of the Board, President and Chief Executive Officer	1991
Wingyu Leung	Executive Vice President, and Chief Technical Officer and Director	1992
Carl E. Berg	Director	1992
Tommy Eng	Director	2004
Chi-Ping Hsu	Director	2004
James D Kupec	Director	2004

Each person nominated has agreed to serve if elected, and our board of directors has no reason to believe that any nominee will be unavailable or will decline to serve. In the event, however, that any nominee is unable or declines to serve as a director at the time of the Annual Meeting, the proxies will be voted for any nominee who is designated by the current board of directors to fill the vacancy.

**Our board of directors unanimously recommends that the stockholders vote FOR the election of all of the above nominees.**

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**PROPOSAL NO. 2:  
APPROVAL OF AMENDED AND RESTATED  
2000 STOCK OPTION AND EQUITY INCENTIVE PLAN**

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**General**

Our board of directors is asking our stockholders to approve our Amended and Restated 2000 Stock Option and Equity Incentive Plan (the "Plan"). Our stockholders are also being asked to approve the material terms of the Plan and the performance goals thereunder for the purpose of having awards under the 2000 Stock Option Plan qualify as "performance-based" compensation under Section 162(m) of the Internal Revenue Code. We are not seeking an increase in the number of shares of common stock to be reserved for future issuance under the Plan.

Our employees, directors and consultants who provide bona fide services to us are eligible to participate in the 2000 Stock Option Plan. As of August 31, 2004, there were approximately 85 persons who were eligible to participate in the 2000 Stock Option Plan, all of whom were employees and/or directors. As of August 31, 2004, 1,380,762 shares of common stock remained available for grant under the Plan. The number of shares reserved under the Plan increases annually by 500,000 shares per year. The Plan is generally administered by the Compensation Committee of the board of directors.



In addition to the options to be received by the three non-employee directors discussed below, our executive officers and non-employee directors have an interest in this proposal as they will receive future awards under the Plan, as amended.

#### **2000 Stock Option Plan, As Amended Material Differences**

The Plan, as amended (assuming approval of the amendment of the plan by the requisite vote of our stockholders), will allow us to grant a wider range of awards than is permitted under the existing Plan, including restricted stock, stock appreciation rights, performance shares, performance units and deferred stock units, which will help us achieve our goal of attracting, retaining and motivating our personnel. We believe that the amended Plan will be an essential element of our competitive compensation package. Material differences between the Plan before and after the proposed amendments include the following:

The amended Plan authorizes the board or Committee to grant a broad range of awards in addition to stock options, including stock grants, restricted stock, performance-based awards, restricted stock units representing a right to acquire shares in the future and stock appreciation rights and to determine the applicable terms, including price, of such awards.

Under the amended Plan, the exercise price of nonstatutory stock options can be determined by the Committee in its sole discretion, and so can be lower than the current limit of 85% of the market price of the common stock at the date of grant.

The amended Plan specifies an initial grant to newly appointed non-employee directors of nonstatutory stock options to purchase 80,000 shares, which represents twice the number of shares historically granted by the Company to new non-employee directors, and an annual automatic grant of 20,000 shares to each non-employee director, which is twice the amount provided in the current plan; in each case such options would vest monthly over four years.

The amended Plan authorizes the Committee to grant additional stock options and awards of up to 40,000 shares of common stock per year to non-employee directors and such number of shares as a disinterested majority of the directors may determine in its discretion in recognition of additional duties to be performed as a committee chair or for other extraordinary service to the board.

The amended Plan provides for automatic acceleration of vesting for options granted to non-employee directors in the event of an acquisition of the Company.

The proposed amendments also make a number of technical and conforming amendments to the Plan.

If Proposal No. 2 is approved by stockholders, the effect will be to ratify and approve offers previously made by the Board to grant additional nonstatutory stock options to purchase 40,000 shares of common stock to each of James Kupec, Tommy Eng and Chi-Ping Hsu and a further grant of a nonstatutory stock option to purchase 80,000 shares of common stock to Mr. Eng for acting as Chair of the board's newly established Technology Strategy Committee. These options will have an exercise price of \$3.88 per share, which was the price of our common stock on August 12, 2004 when these new directors joined our board, and will vest monthly from August 2004 through August 2008 subject to continued performance throughout the period of the directorial services for which these options are being issued.