

SYNAPTICS INC
Form DEF 14A
September 19, 2006

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549
SCHEDULE 14A
(Rule 14a-101)
INFORMATION REQUIRED IN PROXY STATEMENT
SCHEDULE 14A INFORMATION
Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934 (Amendment No.)**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- 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 Under Rule 14a-12

Synaptics Incorporated

(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.
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 - 2) Aggregate number of securities to which transaction applies:

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 - 4) Proposed maximum aggregate value of transaction:

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**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
October 17, 2006**

The Annual Meeting of Stockholders of Synaptics Incorporated, a Delaware corporation, will be held at 11:00 a.m., on Tuesday, October 17, 2006, at the Network Meeting Center located at 5201 Great America Parkway, Santa Clara, California 95054 for the following purposes:

1. To elect two directors to serve for three-year terms expiring in 2009.
2. To ratify the appointment of KPMG LLP, an independent registered public accounting firm, as the independent auditor of our company for the fiscal year ending June 30, 2007.
3. To transact such other business as may properly come before the meeting or any adjournment or adjournments thereof.

The foregoing items of business are more fully described in the proxy statement accompanying this notice.

Only stockholders of record at the close of business on September 1, 2006 are entitled to notice of and to vote at the meeting.

All stockholders are cordially invited to attend the meeting in person. To assure your representation at the meeting, however, you are urged to mark, sign, date, and return the enclosed proxy as promptly as possible in the postage-prepaid envelope enclosed for that purpose. Any stockholder of record attending the meeting may vote in person even if the stockholder previously has returned a proxy.

Sincerely,

Santa Clara, California
September 19, 2006

Russell J. Knittel
Secretary

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SYNAPTICS INCORPORATED
3120 Scott Blvd., Suite 130
Santa Clara, California 95054

PROXY STATEMENT

VOTING AND OTHER MATTERS

General

The enclosed proxy is solicited on behalf of Synaptics Incorporated, a Delaware corporation, by our Board of Directors for use at our Annual Meeting of Stockholders to be held on Tuesday, October 17, 2006 at 11:00 a.m., or at any adjournment thereof, for the purposes set forth in this proxy statement and in the accompanying meeting notice. The meeting will be held at the Network Meeting Center located at 5201 Great America Parkway, Santa Clara, California 95054.

These proxy solicitation materials were first mailed on or about September 19, 2006 to all stockholders entitled to vote at the meeting.

Voting Securities and Voting Rights

Stockholders of record at the close of business on September 1, 2006, which we have set as the record date, are entitled to notice of and to vote at the meeting. On the record date, there were issued and outstanding 25,046,353 shares of our common stock, \$0.001 par value per share.

The presence, in person or by proxy, of the holders of a majority of the total number of shares of common stock outstanding constitutes a quorum for the transaction of business at the meeting. Each stockholder voting at the meeting, either in person or by proxy, may cast one vote per share of common stock held on all matters to be voted on at the meeting. Assuming that a quorum is present, the two persons receiving the highest number of for votes of our common stock present in person or represented by proxy at the meeting and entitled to vote (a plurality) will be elected as directors. Assuming that a quorum is present, the affirmative vote of a majority of the shares of our common stock present in person or represented by proxy at the meeting and entitled to vote is required for the ratification of the appointment of KPMG LLP, an independent registered public accounting firm, as the independent auditor of our company for the fiscal year ending June 30, 2007.

Votes cast by proxy or in person at the meeting will be tabulated by the election inspectors appointed for the meeting and will determine whether a quorum is present. The election inspectors will treat abstentions as shares that are present and entitled to vote for purposes of determining the presence of a quorum, but as unvoted for purposes of determining the approval of any matter submitted to the stockholders for a vote. If a broker indicates on the proxy that it does not have discretionary authority as to certain shares to vote on a particular matter, those shares will not be considered as present and entitled to vote with respect to that matter.

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Voting of Proxies

When a proxy is properly executed and returned, the shares it represents will be voted at the meeting as directed. If no specification is indicated, the shares will be voted (1) for the election of the nominees for director set forth in this proxy statement; (2) for the ratification of the appointment of KPMG LLP as the independent auditor of our company for the fiscal year ending June 30, 2007; and (3) as the persons specified in the proxy deem advisable on any such other matters as may come before the meeting.

Revocability of Proxies

Any stockholder giving a proxy may revoke the proxy at any time before its use by delivering to us either a written notice of revocation, by delivering to us a duly executed proxy bearing a later date, or by attending the meeting and voting in person.

Solicitation

We will bear the cost of this solicitation. In addition, we may reimburse brokerage firms and other persons representing beneficial owners of shares for expenses incurred in forwarding solicitation materials to such beneficial owners. Proxies also may be solicited by certain of our directors and officers, personally or by telephone or e-mail, without additional compensation.

Annual Report and Other Matters

Our 2006 Annual Report to Stockholders, which was mailed to stockholders with or preceding this proxy statement, contains financial and other information about our company, but is not incorporated into this proxy statement and is not to be considered a part of these proxy soliciting materials or subject to Regulations 14A or 14C or to the liabilities of Section 18 of the Securities Exchange Act of 1934. The information contained in the Compensation Committee Report on Executive Compensation, Audit Committee Report, and Performance Graph below shall not be deemed filed with the Securities and Exchange Commission (SEC) or subject to Regulations 14A or 14C or to the liabilities of Section 18 of the Exchange Act.

We will provide upon written request, without charge to each stockholder of record as of the record date, a copy of our Annual Report on Form 10-K for the fiscal year ended June 24, 2006 as filed with the SEC. Any exhibits listed in the Form 10-K report also will be furnished upon request at the actual expense we incur in furnishing such exhibits. Any such requests should be directed to our corporate secretary at our executive offices set forth in this proxy statement.

ELECTION OF DIRECTORS

Nominees

Our certificate of incorporation and bylaws provide that the number of directors shall be fixed from time to time by resolution of our Board of Directors. The directors are divided into three classes, with one class standing for election each year for a three-year term. The Board of Directors has nominated Keith B. Geeslin and Jeffrey D. Buchanan for election as Class 1 directors for three-year terms expiring in 2009 or until their successors have been elected and qualified.

Unless otherwise instructed, the proxy holders will vote the proxies received by them for the nominees named above. Messrs. Geeslin and Buchanan currently are directors of our company. In the event that either Mr. Geeslin or Mr. Buchanan is unable or declines to serve as a director at the time of the meeting, the proxies will be voted for any nominees designated by the current Board of Directors to fill the vacancies. It is not expected that either Mr. Geeslin or Mr. Buchanan will be unable or will decline to serve as a director.

The Board of Directors recommends a vote **for** the nominees named herein.

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The following table sets forth certain information regarding our directors and the nominees for directors:

Name	Age	Position	Term Expires
Federico Faggin	64	Chairman of the Board	2007
Francis F. Lee	54	President, Chief Executive Officer, and Director	2008
Keith B. Geeslin	53	Director	2006
Richard L. Sanquini	71	Director	2008
W. Ronald Van Dell	49	Director	2007
Jeffrey D. Buchanan	50	Director	2006

Federico Faggin co-founded our company and has been the Chairman of the Board of our company since January 1999. He served as a director, President, and Chief Executive Officer of our company from March 1987 to December 1998. Mr. Faggin is currently President, Chief Executive Officer, and a director of Foveon, Inc., a private company that develops advanced image sensing technology and in which we have an ownership interest. He is also a director of ZiLOG, Inc., a public company that is a designer, manufacturer, and marketer of integrated microcontroller products. Mr. Faggin also co-founded Cygnet Technologies, Inc. in 1982 and ZiLOG, Inc. in 1974. Mr. Faggin served as Department Manager in Research and Development at Intel Corporation from 1970 to 1974 and led the design and development of the world's first microprocessor and more than 25 integrated circuits. In 1968, Mr. Faggin was employed by Fairchild Semiconductor and led the development of the original MOS Silicon Gate Technology and designed the world's first commercial integrated circuit to use such technology. He is the recipient of many honors and awards, including the 1988 International Marconi Fellowship Award, the 1994 IEEE W. Wallace McDowell Award, and the 1997 Kyoto Prize. In addition, in 1996, Mr. Faggin was inducted in the National Inventor's Hall of Fame for the co-invention of the microprocessor. Mr. Faggin holds a doctorate in physics, summa cum laude, from the University of Padua, Italy. He also holds honorary doctorate degrees in computer science from the University of Milan, Italy and in electrical engineering from the University of Rome, Italy.

Francis F. Lee has been a director and the President and Chief Executive Officer of our company since January 1999. He was a consultant from August 1998 to November 1998. From May 1995 until July 1998, Mr. Lee served as General Manager of NSM, a Hong Kong-based joint venture between National Semiconductor Corporation and S. Megga. Mr. Lee held a variety of executive positions for National Semiconductor from 1988 until August 1995. These positions included Vice President of Communication and Computing Group, Vice President of Quality and Reliability, Director of Standard Logic Business Unit, and various other operations and engineering management positions. Mr. Lee is a director of Foveon, Inc. Mr. Lee holds a Bachelor of Science degree, with honors, in electrical engineering from the University of California at Davis.

Keith B. Geeslin has been a director of our company since 1986. Mr. Geeslin has been a General Partner of Francisco Partners, a firm specializing in structured investments in technology companies undergoing strategic, technological, and operational inflection points, since January 2004. From 2001 until October 2003, Mr. Geeslin served as Managing General Partner of the Sprout Group, a venture capital firm, with which he became associated in 1984. In addition, Mr. Geeslin served as a general or limited partner in a series of investment funds associated with the Sprout Group, a division of DLJ Capital Corporation, which is a subsidiary of Credit Suisse First Boston (USA), Inc. Mr. Geeslin is a director of Blue Coat Systems, Inc., a public company, and several privately held companies. He has also served as a director of the Western Association of Venture Capitalists. Mr. Geeslin holds a Bachelor of Science degree in Electrical Engineering and a Masters of Science degree in Engineering and Economic Systems from Stanford University and a Masters of Arts degree in Philosophy, Politics, and Economics from Oxford University.

Richard L. Sanquini has been a director of our company since 1994. Mr. Sanquini has been the Chairman of the Board of PortalPlayer, Inc., a public company that designs, develops, and markets personal media player solutions, since November 2002. Mr. Sanquini retired from National Semiconductor as Senior Vice President in January 2000. Mr. Sanquini had been with National Semiconductor since 1980, except for between March 1989 and December 1989, when he served as President and Chief Executive Officer of Information Storage Devices, a semiconductor company. Mr. Sanquini also serves on the board of ZiLOG, Inc., a public company that is a designer, manufacturer, and

marketer of integrated microcontroller products, and several privately held companies.

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Mr. Sanquini holds a Bachelor of Science degree in electrical engineering from the Milwaukee School of Engineering, Wisconsin.

W. Ronald Van Dell has been a director of our company since April 2002. Mr. Van Dell has been President and Chief Executive Officer of Primarion, Inc., a mixed signal semiconductor company, since March 2004. Mr. Van Dell served as the President and Chief Executive Officer of Legerity, a fabless analog/mixed-signal semiconductor company, from December 2000 until February 2004. Prior to joining Legerity, from July 1999 until December 2000, Mr. Van Dell served as General Manager for Dell Computer's Dimension product line. Prior to joining Dell Computer, Mr. Van Dell served from November 1997 until July 1999 as Vice President and General Manager of the communication integrated circuit business, and from August 1995 until October 1997 as Vice President and General Manager of worldwide marketing and sales, for Harris Semiconductor (now Intersil Corporation). Mr. Van Dell has been a member of the Switzerland-based World Economic Forum and holds a Bachelor of Science degree in electrical engineering from Michigan Technological University.

Jeffrey D. Buchanan has been a director of our company since September 2005. Mr. Buchanan has been a principal of Echo Advisors, Inc., a corporate consulting and advisory firm focusing on mergers, acquisitions, and strategic planning, since February 2005. Mr. Buchanan served as Executive Vice President of Three-Five Systems, Inc., a publicly traded electronic manufacturing services company, from June 1998 until February 2005; as Chief Financial Officer and Treasurer of that company from June 1996 until February 2005; and as Secretary of that company from May 1996 until February 2005. Mr. Buchanan served as Vice President—Finance, Administration, and Legal of that company from June 1996 until July 1998 and as Vice President—Legal and Administration of that company from May 1996 to June 1996. Mr. Buchanan served from June 1986 until May 1996 as a business lawyer with O'Connor, Cavanagh, Anderson, Killingsworth & Beshears. Mr. Buchanan was associated with the international law firm of Davis Wright Tremaine from 1984 to 1986, and he was a senior staff person at Deloitte & Touche from 1982 to 1984. Mr. Buchanan is a director of Smith & Wesson Holding Corporation, the largest manufacturer of handguns in the United States, which is listed on the Nasdaq Global Select Market; and a director of NuVision U.S., Inc., a privately owned display company. Three-Five Systems, Inc. filed a voluntary petition for bankruptcy under Chapter 11 of the U.S. Bankruptcy Code on September 8, 2005. Mr. Buchanan holds a Bachelor of Science in Accounting from Arizona State University, a Juris Doctorate from the University of Arizona, and Masters of Law in Taxation from the University of Florida.

Information Relating to Corporate Governance and the Board of Directors

Our Board of Directors has determined, after considering all the relevant facts and circumstances, that Messrs. Buchanan, Faggin, Geeslin, Sanquini, and Van Dell are independent directors, as independence is defined by Nasdaq, because they have no relationship with us that would interfere with their exercise of independent judgment. Mr. Lee is an employee director.

Our bylaws authorize our Board of Directors to appoint among its members one or more committees, each consisting of one or more directors. Our Board of Directors has established three standing committees: an Audit Committee, a Compensation Committee, and a Nominations and Corporate Governance Committee. The members of our Audit Committee, Compensation Committee, and Nominations and Corporate Governance Committee consist entirely of independent directors.

Our Board of Directors has adopted charters for the Audit, Compensation, and Nominations and Corporate Governance Committees describing the authority and responsibilities delegated to each committee by the board. Our Board of Directors has also adopted Corporate Governance Guidelines, a Code of Conduct, and a Code of Ethics for the CEO and Senior Financial Officers. We post on our website at www.synaptics.com, the charters of our Audit, Compensation, and Nominations and Corporate Governance Committees; our Corporate Governance Guidelines, Code of Conduct, and Code of Ethics for the CEO and Senior Financial Officers, and any amendments or waivers thereto; and any other corporate governance materials contemplated by SEC or Nasdaq regulations. These documents are also available in print to any stockholder requesting a copy in writing from our corporate secretary at our executive offices set forth in this proxy statement.

We regularly schedule executive sessions at which independent directors meet without the presence or participation of management. The Chairman of the Board of Directors presides at such executive sessions. In his

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absence, the presiding director of such executive session rotates among the Chairs of the Audit Committee, Compensation Committee, and the Nominations and Corporate Governance Committee.

Interested parties may communicate with our Board of Directors or specific members of our Board of Directors, including our independent directors and the members of our various board committees, by submitting a letter addressed to the Board of Directors of Synaptics Incorporated c/o any specified individual director or directors at the company address listed in this proxy statement. Any such letters are forwarded to the indicated directors.

The Audit Committee

The purpose of the Audit Committee is to oversee the financial and reporting processes of our company and the audits of the financial statements of our company and to provide assistance to our Board of Directors with respect to the oversight of the integrity of the financial statements of our company, our company's compliance with legal and regulatory matters, the independent auditor's qualifications and independence, and the performance of the independent auditor of our company. The primary responsibilities of the Audit Committee are set forth in its charter and include various matters with respect to the oversight of our company's accounting and financial reporting process and audits of the financial statements of our company on behalf of our Board of Directors. The Audit Committee also selects the independent auditor to conduct the annual audit of the financial statements of our company; reviews the proposed scope of such audit; reviews accounting and financial controls of our company with the independent auditor and our financial accounting staff; and reviews and approves transactions between us and our directors, officers, and their affiliates.

The Audit Committee currently consists of Messrs. Buchanan, Sanquini, and Van Dell, each of whom is an independent director of our company under Nasdaq rules as well as under rules adopted by the SEC pursuant to the Sarbanes-Oxley Act of 2002. The Board of Directors has determined that Mr. Buchanan (whose background is detailed above) qualifies as an audit committee financial expert in accordance with applicable rules and regulations of the SEC. Mr. Buchanan serves as the Chairman of the Audit Committee.

The Compensation Committee

The purposes of the Compensation Committee include determining, or recommending to our Board of Directors for determination, the compensation of the Chief Executive Officer and other executive officers of our company and discharging the responsibilities of our Board of Directors relating to compensation programs of our company. The Compensation Committee currently consists of Messrs. Faggin, Geeslin, and Sanquini, with Mr. Sanquini serving as Chairman.

The Nominations and Corporate Governance Committee

The purposes of the Nominations and Corporate Governance Committee include the selection or recommendation to the Board of Directors of nominees to stand for election as directors at each election of directors, the oversight of the selection and composition of committees of the Board of Directors, the oversight of the evaluations of the Board of Directors and management, and the development and recommendation to the Board of Directors of a set of corporate governance principles applicable to our company. The Nominations and Corporate Governance Committee currently consists of Messrs. Faggin, Geeslin, and Van Dell, with Mr. Faggin serving as Chairman.

The Nominations and Corporate Governance Committee will consider persons recommended by stockholders for inclusion as nominees for election to our Board of Directors if the names, biographical data, and qualifications of such persons are submitted in writing in a timely manner addressed and delivered to our company's corporate secretary at the company address listed in this proxy statement. The Nominations and Corporate Governance Committee identifies and evaluates nominees for our Board of Directors, including nominees recommended by stockholders, based on numerous factors it considers appropriate, some of which may include strength of character, mature judgment, career specialization, relevant technical skills, diversity, and the extent to which the nominee would fill a present need on our Board of Directors. As discussed above, the members of the Nominations and Corporate Governance Committee are independent, as that term is defined by Nasdaq.

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The Board of Directors held a total of seven meetings during fiscal 2006. The Audit Committee held five meetings during fiscal 2006. The Compensation Committee held a total of five meetings during fiscal 2006. The Nominations and Corporate Governance Committee held no meetings during the fiscal year ended June 24, 2006. Each of our directors attended at least 75% of the aggregate of (1) the total number of meetings of our Board of Directors held during fiscal 2006, and (2) the total number of meetings held by all committees of our Board of Directors on which such person served during fiscal 2006.

We encourage our directors to attend each annual meeting of stockholders. To that end, and to the extent reasonably practical, we generally schedule a meeting of our Board of Directors on the same day as our annual meeting of stockholders. Four of our directors attended our annual meeting of stockholders last year.

Director Compensation

We pay each non-employee director an annual retainer of \$10,000 in cash or stock at the director's election, provided such election is made six months in advance of the annual retainer payment date. We also pay a fee of \$2,000 to each non-employee director for attendance at each board meeting in person and \$500 for attendance at each board meeting by teleconference as well as a fee of \$1,000 (or \$2,000 for the committee chair) for each committee meeting attended. In addition, non-employee directors are currently eligible to receive grants of options to purchase our common stock or deferred stock units under our 2001 incentive compensation plan, with the Chairman of the Board currently eligible to receive an annual grant of options to purchase 18,750 shares, or an equivalent annual grant of options and deferred stock units, and other non-employee directors currently eligible to receive an annual grant of options to purchase 12,500 shares, or an equivalent annual grant of options and deferred stock units. Newly elected non-employee directors receive an initial grant of options to purchase 50,000 shares of our common stock in lieu of any annual option grant during the first year of service. We reimburse non-employee directors for their expenses for attending board and committee meetings.

During fiscal 2006, we granted options to purchase shares of common stock and deferred stock units to the following non-employee directors: options to purchase 50,000 shares at an exercise price of \$19.56 were granted to Mr. Buchanan; options to purchase 14,062 shares at an exercise price of \$30.71 per share and 1,562 deferred stock units were granted to Mr. Faggin; options to purchase 9,375 shares at an exercise price of \$30.71 per share and 1,041 deferred stock units were granted to Mr. Geeslin; options to purchase 9,375 shares at an exercise price of \$30.71 per share and 1,041 deferred stock units were granted to Mr. Sanquini; and options to purchase 9,375 shares at an exercise price of \$30.71 per share and 1,041 deferred stock units were granted to Mr. Van Dell. Twenty-five percent of the options granted to each director will vest and become exercisable on the first anniversary of the date of grant, and options to purchase 1/48th of the total number of options granted to each director will vest and become exercisable each month thereafter. Twenty-five percent of the shares subject to the deferred stock units granted to each director will vest and become exercisable on January 31, 2007, and 1/16th of the total number of shares subject to the deferred stock units granted to each director will vest quarterly thereafter.

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The following table sets forth, for the fiscal periods indicated, the total compensation earned for services provided to us in all capacities by our Chief Executive Officer and our four next most highly compensated executive officers whose aggregate compensation exceeded \$100,000 during fiscal 2006, whom we refer to as the named executive officers.

SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Annual Compensation (1)		Long-Term Compensation Awards		
		Salary (\$)	Bonus (\$)	Restricted Stock Award(s) (#)(2)	Securities Underlying Options (#)(3)	All Other Compensation (\$)
Francis F. Lee President and Chief Executive Officer	2006	\$303,000	\$320,000	\$383,875	112,500	\$ 3,000(4)
	2005	295,000	770,000		200,000	28,534(5)
	2004	280,000	470,000		200,000	800(4)
Donald E. Kirby (6) Senior Vice President and General Manager PC Products	2006	\$236,000	\$141,000		60,000	\$ 2,800(4)
	2005	230,000	326,000		50,000	23,363(7)
	2004	221,000	200,000		50,000	651(4)
Russell J. Knittel Senior Vice President, Chief Financial Officer, Chief Administrative Officer, Secretary, and Treasurer	2006	\$230,000	\$155,000		60,000	\$ 2,900(4)
	2005	220,000	335,000		55,000	2,267(4)
	2004	210,000	210,000		55,000	1,050(4)
Clark F. Foy Vice President of Marketing	2006	\$203,000	\$ 93,000		60,000	\$ 2,814(4)
	2005	201,000	200,000		30,000	2,007(4)
	2004	200,000	115,000			525(4)
Thomas D. Spade Vice President of Worldwide Sales	2006	\$297,500			30,000	\$ 2,857(4)
	2005	422,800			30,000	16,597(8)
	2004	325,401			30,000	702(4)
Shawn P. Day, Ph. D. Vice President of Research and Development	2006	\$194,000	\$100,000		30,000	\$ 2,860(4)
	2005	190,000	218,000		25,000	64,484(9)
	2004	185,000	131,000		30,000	660(4)

(1) Executive officers received certain perquisites, the

value of which did not exceed the lesser of \$50,000 or 10% of that officer's salary and bonus during fiscal 2006.

- (2) Amount shown represents the value of the deferred stock units granted to Mr. Lee in fiscal 2006 based on the closing price of our common stock on the date of grant, January 17, 2006. At June 24, 2006, none of the shares subject to the deferred stock units were vested. The value of the unvested shares at June 24, 2006 was \$272,375 based on the closing price of our common stock on June 23, 2006, the last trading day of fiscal 2006. The shares subject to the deferred stock units vest 25% on January 31, 2007 and 1/16th per quarter thereafter.

- (3) The exercise price of all stock

options granted was equal to the fair market value of our common stock on the date of grant.

(4) Amounts shown represent matching contributions to our company's 401(k) Plan for the specified year.

(5) Amount shown includes \$26,384 of accrued vacation payout and \$2,150 of matching contributions to our company's 401(k) plan.

(6) Mr. Kirby resigned from his position as Senior Vice President and General Manager PC Products effective March 31, 2006.

(7) Amount shown includes \$21,037 of accrued vacation payout and \$2,326 of matching contributions to our company's 401(k) plan.

(8)

Amount shown includes \$14,629 of accrued vacation payout and \$1,968 of matching contributions to our company's 401(k) plan.

(9) Amount shown includes \$62,524 of accrued vacation payout and \$1,960 of matching contributions to our company's 401(k) plan.

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The table below provides information about the stock options granted to the named executive officers during fiscal 2006. These options were granted under our 2001 incentive compensation plan and have a term of 10 years. The options may terminate earlier if the optionholder stops providing services to us.

The percentage of total options in the table below was calculated based on options to purchase an aggregate of 1,585,184 shares of our common stock granted to our employees in fiscal 2006.

OPTION GRANTS IN LAST FISCAL YEAR

Name	Number of Securities Underlying Options Granted(1)	Individual Grants			Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term(2)	
		Percent of Total Options Granted to Employees in Fiscal Year	Exercise Price(\$/Sh)	Expiration Date	5%	10%
Francis F. Lee	112,500	7.1%	\$30.71	01/17/2016	\$2,172,752	\$5,506,181
Donald E. Kirby	60,000	3.8%	\$21.50	07/26/2015	\$ 811,274	\$2,055,928
Russell J. Knittel	60,000	3.8%	\$21.50	07/26/2015	\$ 811,274	\$2,055,928
Clark F. Foy	60,000	3.8%	\$21.50	07/26/2015	\$ 811,274	\$2,055,928
Thomas D. Spade	30,000	1.9%	\$21.50	07/26/2015	\$ 405,637	\$1,027,964
Shawn P. Day, Ph.D.	30,000	1.9%	\$21.50	07/26/2015	\$ 405,637	\$1,027,964

(1) Twenty-five percent of the options granted to each of the named officers will vest and become exercisable on the first anniversary of the date of grant, and 1/48th of the total number of options granted to each of the named officers will vest and become exercisable each month thereafter.

- (2) Potential gains are net of the exercise price, but before taxes associated with the exercise. Amounts represent hypothetical gains that could be achieved based on the assumed 5% and 10% stock price appreciation rates for the respective option grants if exercised at the end of the option term. The assumed 5% and 10% stock price appreciation rates are provided in accordance with the rules of the SEC and do not represent our estimate or projection of the future price of our company's common stock. Actual gains, if any, on stock option exercises will depend upon the future market prices of our common stock.

Option Exercises and Option Holdings

The following table describes, for the named executive officers, the number of shares acquired and the value realized upon exercise of stock options during fiscal 2006 and the exercisable and unexercisable options held by them as of June 24, 2006.

AGGREGATED OPTION EXERCISES IN LAST FISCAL YEAR AND FISCAL YEAR-END OPTION VALUES

	Shares Acquired on Exercise (#)	Value Realized (\$)	Number of Securities Underlying Unexercised Options at June 24, 2006		Value of Unexercised In-The-Money Options at June 24, 2006 (1)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Francis F. Lee	160,000	\$2,858,273	933,332	354,168	\$14,714,364	\$907,386
Donald E. Kirby			250,120	104,881	\$ 3,697,930	\$349,039
Russell J. Knittel	60,500	\$1,393,459	125,727	106,773	\$ 1,514,930	\$341,215
Clark F. Foy	25,000	\$ 511,781	64,875	75,625	\$ 778,954	\$496,456
Thomas D. Spade	33,214	\$ 715,841	38,752	55,625	\$ 365,579	\$187,106
Shawn P. Day, Ph. D.	15,000	\$ 343,052	97,395	52,605	\$ 1,304,355	\$171,345

(1) Calculated based upon the June 23, 2006 Nasdaq Global Select Market (formerly Nasdaq National Market) closing price of \$21.79 per share, multiplied by the number of in-the-money options held, less the aggregate exercise price for such options.

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Employment Agreements

We have no written employment contracts with our executive officers or directors. We do have, however, Change of Control and Severance Agreements described below or signed terms-and-conditions agreements with certain employees. We offer our employees a 401(k) match and an employee stock purchase plan, as well as medical, dental, vision, life, and disability insurance benefits. Our executive officers and other key personnel are eligible to receive incentive bonuses and are eligible to receive stock-based awards under our incentive compensation plans.

Severance Policy

We maintain a severance policy for certain executive officers designated by our Board of Directors and who have completed at least one full year of employment with our company. Under the policy, we will pay base salary and targeted bonus and maintain benefits following a termination of employment without cause for one year in the case of the Chief Executive Officer and six months in the case of the other designated executive officers, and will continue to vest stock options for one year in the case of the Chief Executive Officer and six months in the case of the other designated executive officers unless the options provide otherwise. In the event of death, we will pay to the estate of the executive the executive's base salary and targeted bonus for one year in the case of the Chief Executive Officer and 50% of the base salary and targeted bonus in the case of the other designated executive officers. Messrs. Lee and Knittel currently are subject to the severance policy.

Change of Control and Severance Agreements

We are a party to a Change of Control and Severance Agreement with each of Francis F. Lee, Thomas J. Tiernan, and Russell J. Knittel. The agreements become effective upon a change of control of our company as defined in the agreements. Under the agreements, each of the executives has agreed to remain employed by our company or its successor for a rolling one-year period after a change of control upon the same terms and conditions that existed immediately prior to the change of control and to refrain from competing with our company during the term of employment and while any severance payments are being made. The agreements provide for the payment by our company, for one year after termination of employment by our company without good cause or by the executive for good reason, as defined in the agreements, or by the executive for any reason during the 30-day period following the first anniversary of the change of control, of compensation equal to the greater of two times the average of the base salary and bonus for the two years prior to such termination or the base salary and targeted bonus for the fiscal year in which such termination occurs in the case of Mr. Lee and the greater of the average of the base salary and bonus for the two years prior to such termination or the base salary and targeted bonus for the fiscal year in which such termination occurs in the case of Messrs. Tiernan and Knittel. In the case of such termination, the agreements also provide for the continuation of insurance coverage on the executive and the executive's family for two years in the case of Mr. Lee and one year in the case of Messrs. Tiernan and Knittel. In addition, the agreements provide for the continuation of base salary payments and benefit coverage for the executive's family for a period of 12 months after the death of the executive and for the payment in the event of disability of a lump sum equal to the greater of two times the average of the base salary and bonus for the two fiscal years prior to such termination or the executive's base salary and targeted bonus for the fiscal year in which such termination occurs in the case of Mr. Lee and the greater of the average of the base salary and bonus for the two fiscal years prior to such termination or the executive's base salary and targeted bonus for the fiscal year in which such termination occurs in the case of Messrs. Tiernan and Knittel. The agreements provide that in the event of a change of control 50% of unvested options vest immediately and the remaining 50% of unvested options vest immediately if the executive is terminated by our company without good cause or by the executive for good reason. All vested options, including those vesting under the terms of the agreements, will be exercisable during their full term in the event of a change of control.

In addition, Mr. Lee currently holds options to purchase 33,334 shares that provide for acceleration of vesting upon a change of control in accordance with the terms of his option agreement, which predated his Change of Control and Severance Agreement with us.

Table of Contents**Indemnification Under our Certificate of Incorporation and Bylaws and Indemnification Agreements**

Our certificate of incorporation provides that no director will be personally liable to our company or its stockholders for monetary damages for breach of a fiduciary duty as a director, except to the extent such exemption or limitation of liability is not permitted under the Delaware General Corporation Law. The effect of this provision in the certificate of incorporation is to eliminate the rights of our company and its stockholders, either directly or through stockholders' derivative suits brought on behalf of our company, to recover monetary damages from a director for breach of the fiduciary duty of care as a director except in those instances described under the Delaware General Corporation Law. In addition, we have adopted provisions in our bylaws and entered into indemnification agreements that require us to indemnify our directors, officers, and certain other representatives of our company against expenses and certain other liabilities arising out of their conduct on behalf of our company to the maximum extent and under all circumstances permitted by law. Indemnification may not apply in certain circumstances to actions arising under the federal securities laws.

1996 Stock Option Plan

Our 1996 stock option plan provides for the grant of incentive stock options to employees, including employee directors, and of nonstatutory stock options to employees, directors, and consultants. The purposes of the 1996 stock option plan are to attract and retain the best available personnel, to provide additional incentives to our employees and consultants, and to promote the success of our business. The 1996 stock option plan was originally adopted by our Board of Directors in December 1996 and approved by our stockholders in November 1996. The 1996 stock option plan provides for the issuance of options and rights to purchase up to 5,380,918 shares of our common stock. Unless terminated earlier by the Board of Directors, the 1996 stock option plan will terminate in December 2006. As of June 24, 2006, options to purchase 1,222,989 shares of our common stock were outstanding under the 1996 stock option plan and 3,833,684 shares had been issued upon exercise of outstanding options.

2000 Nonstatutory Stock Option Plan

Our 2000 nonstatutory stock option plan provides for the grant of nonstatutory stock options to employees and consultants. The purposes of the 2000 nonstatutory stock option plan are to attract and retain the best available personnel, to provide additional incentives to our employees and consultants, and to promote the success of our business. The 2000 nonstatutory stock option plan was adopted by our Board of Directors in September 2000. The 2000 nonstatutory stock option plan provides for the issuance of options to purchase up to 200,000 shares of our common stock. Unless terminated earlier by the Board of Directors, the 2000 nonstatutory stock option plan will terminate in September 2010. As of June 24, 2006, options to purchase 55,334 shares of our common stock were outstanding under the 2000 nonstatutory stock option plan and 107,082 shares had been issued upon exercise of outstanding options.

2001 Incentive Compensation Plan

Our 2001 incentive compensation plan is designed to attract, motivate, retain, and reward our executives, employees, officers, directors, and independent contractors, by providing such persons with annual and long-term performance incentives to expend their maximum efforts in the creation of stockholder value. The 2001 incentive compensation plan was adopted by our Board of Directors in March 2001 and approved by our stockholders in November 2001. Under the 2001 incentive compensation plan, an aggregate of 2,414,826 shares of common stock as of the end of fiscal 2006 may be issued pursuant to the granting of options to acquire common stock, the direct granting of restricted common stock and deferred stock, the granting of stock appreciation rights, or the granting of dividend equivalents. On the first day of each calendar quarter, an additional number of shares equal to 1 1/2% of the total number of shares then outstanding will be added to the number of shares that may be subject to the granting of awards. As of June 24, 2006, options to purchase 4,529,688 shares of our common stock and 38,280 deferred stock units were outstanding under the 2001 incentive compensation plan and 1,332,877 shares had been issued upon exercise of outstanding options.

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2001 Employee Stock Purchase Plan

Our 2001 employee stock purchase plan is designed to encourage stock ownership in our company by our employees, thereby enhancing employee interest in our continued success. The plan was adopted by our Board of Directors in February 2001 and approved by our stockholders in November 2001. One million shares of our common stock were initially reserved for issuance under the plan. An annual increase is made equal to the lesser of 500,000 shares, 1% of all shares of common stock outstanding, or a lesser amount determined by the Board of Directors. As of June 24, 2006, there were 613,371 shares reserved for issuance under the plan. During fiscal 2006, 93,020 shares of common stock were issued under the plan.

401(k) Retirement Savings Plan

In July 1991, we adopted a 401(k) retirement savings plan for which our employees generally are eligible. The plan is intended to qualify under Section 401(k) of the Internal Revenue Code, so that contributions to the plan by employees or by us and the investment earnings on the contributions are not taxable to the employees until withdrawn. Our contributions are deductible by us when made. Our employees may elect to reduce their current compensation by an amount equal to the maximum of 25% of total annual compensation or the annual limit permitted by law and to have those funds contributed to the plan. We provide matching funds of 20% of the employee's contribution up to a maximum of \$2,800.

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COMPENSATION COMMITTEE REPORT ON EXECUTIVE COMPENSATION

Introduction

The Compensation Committee of the Board of Directors of our company consists exclusively of non-employee directors. The committee is responsible for reviewing and establishing compensation practices, executive salary levels, and variable compensation programs, both cash-based and equity-based. The committee generally reviews base salary levels for executive officers at the beginning of each fiscal year and sets actual bonuses at the end of each fiscal year based upon individual executive performance and the performance of our company.

Richard L. Sanquini is the Chairman of the committee, and Federico Faggin and Keith B. Geeslin are the other committee members.

Philosophy

Our executive compensation program seeks to provide a level of compensation that is competitive with companies similar in both size and industry. The committee obtains the comparative data used to assess competitiveness from a variety of resources. Actual total compensation levels may differ from competitive levels in surveyed companies as a result of annual and long-term company performance, as well as individual performance. The committee uses its discretion to establish executive compensation when, in its judgment, external, internal, or an individual's circumstances warrant.

Compensation Program

The primary components of executive compensation consist of base salary, annual incentive bonuses, and stock-based awards.

Base Salary

The committee establishes salaries for executive officers based on the overall performance of our company, an evaluation of individual executive performance, and industry data. The committee makes final decisions on any adjustments to the base salary for executives in conjunction with the recommendations of the Chief Executive Officer. The committee's evaluation of the recommendations of the Chief Executive Officer considers the same factors outlined above and is subjective, with no particular weight assigned to any one factor. Base salaries for the executive officers were increased in fiscal 2006 to an extent reflecting market factors.

Annual Incentive Bonuses

Annual bonuses are intended to provide incentive compensation to key officers and employees who contribute substantially to the success of our company. The granting of such awards is based upon the achievement of company performance objectives and predefined individual performance objectives. Individual performance objectives are developed for every senior level manager and key employee early in each fiscal year. After the first half of the year and upon the close of each fiscal year, executive management and the committee conduct an assessment of company and individual performance achieved versus company and individual performance objectives. This assessment may include individual responsibility, performance, and compensation level. Simultaneously, the Board of Directors conducts an assessment of our company's overall performance to date, which may include the achievement of sales, operating income, and other performance criteria. The combination of these factors determines any incentive bonuses to be paid.

Based on both individual performances and the assessment of our company's overall performance in fiscal 2006, bonuses were awarded to our named executive officers as set forth under Executive Compensation Summary Compensation Table.

Stock-Based Awards

Our company grants stock-based awards, including stock options and deferred stock units, periodically to our employees to provide additional incentive to work to maximize long-term total return to stockholders. Under each incentive compensation plan, the Board of Directors is specified to act as the plan administrator, although the

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Board of Directors has authorized the Compensation Committee to make decisions regarding grants of stock-based awards to senior officers and employees of and consultants to our company. In general, stock options are granted to employees at the onset of employment. If, in the opinion of the plan administrator, the outstanding service of an existing employee merits an increase in the number of options held, however, the plan administrator may elect to issue additional stock-based awards, such as additional options or deferred stock units, to that employee. The vesting period on grants is generally four years for newly hired employees. The vesting schedule is generally 25% on the first anniversary of the grant date and 1/48th of the total shares each month thereafter in order to encourage holders to continue in the employ of our company. Certain officers and key employees may sometimes have longer vesting schedules with vesting starting two or more years after the grant date. In fiscal 2006, the issuance of stock options and deferred stock units to certain executive officers and other employees was authorized, including those to our named executive officers as set forth under Executive Compensation Summary Compensation Table.

Benefits

Our company provides various employee benefit programs to executive officers, including medical, dental, vision, life, and disability insurance benefits, a 401(k) retirement savings plan, and an employee stock purchase plan. These benefits are generally available to all employees of our company.

Chief Executive Officer Compensation

The committee considers the same factors outlined above for other executive officers in evaluating the base salary and other compensation of Francis F. Lee, the Chief Executive Officer of our company. The committee's evaluation of Mr. Lee's base salary is subjective, with no particular weight assigned to any one factor. Based upon an assessment of individual and overall company performance in fiscal 2006, the committee determined that Mr. Lee would receive a \$320,000 bonus for fiscal 2006.

Compliance with Internal Revenue Code Section 162(m)

Section 162(m) of the Internal Revenue Code generally disallows a tax deduction to public companies for compensation in excess of \$1 million paid to each of any publicly held corporation's chief executive officer and four other most highly compensated executive officers. Qualifying performance-based compensation is not subject to the deduction limit if certain requirements are met. Our company structures the performance-based portion of the compensation of executive officers in a manner that complies with Section 162(m).

This report has been furnished by the Compensation Committee to the Board of Directors.

Richard L. Sanquini, Chairman

Federico Faggin

Keith B. Geeslin

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

Our Compensation Committee consists of Messrs. Faggin, Geeslin, and Sanquini. No interlocking relationship exists between any member of our Board of Directors or our Compensation Committee and any member of the Board of Directors or Compensation Committee of any other company.

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AUDIT COMMITTEE REPORT

The Board of Directors has appointed an Audit Committee consisting of three directors. The current members of the Audit Committee are Jeffrey D. Buchanan, Richard L. Sanquini, and W. Ronald Van Dell. Each of the committee members is independent of our company and management, as that term is defined in Nasdaq rules.

The primary responsibility of the committee is to assist the Board of Directors in fulfilling its responsibility to oversee management's conduct of our company's financial reporting process, including overseeing the financial reports and other financial information provided by our company to governmental or regulatory bodies (such as the SEC), the public, and other users thereof; our company's systems of internal accounting and financial controls; and the annual independent audit of our company's financial statements.

Management has the primary responsibility for the financial statements and the reporting process, including the systems of internal controls. The independent auditor is responsible for auditing the financial statements and expressing an opinion on the conformity of those audited financial statements with accounting principles generally accepted in the United States.

In fulfilling its oversight responsibilities, the committee reviewed and discussed the audited financial statements with management and the independent auditor. The committee discussed with the independent auditor the matters required to be discussed by Statement of Auditing Standards No. 61. This included a discussion of the auditor's judgments as to the quality, not just the acceptability, of our company's accounting principles and such other matters as are required to be discussed with the committee under generally accepted auditing standards. In addition, the committee received from the independent auditor written disclosures and the letter required by Independence Standards Board Standard No. 1. The committee also discussed with the independent auditor the auditor's independence from management and our company, including the matters covered by the written disclosures and letter provided by the independent auditor, and considered the compatibility of non-audit services with auditor independence.

The committee discussed with the independent auditor the overall scope and plans for its audits. The committee met with the independent auditor, with and without management present, to discuss the results of its audit, its consideration of our company's internal controls, and the overall quality of the financial reporting. The committee held five meetings with management of our company, all of which were attended by the independent auditor of our company, with respect to the company's financial statements and audit or quarterly review procedures.

Based on the reviews and discussions referred to above, the committee recommended to the Board of Directors, and the board approved, that the audited financial statements be included in our company's Annual Report on Form 10-K for the year ended June 24, 2006 for filing with the SEC. The committee also has selected the company's independent auditor of our company.

The Board of Directors has adopted a written charter for the Audit Committee. A copy of that charter is included as Appendix A to this proxy statement.

The report has been furnished by the Audit Committee of the Board of Directors.

Jeffrey D. Buchanan, Chairman

Richard L. Sanquini

W. Ronald Van Dell

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SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE