

Research Highlights

Stock Option Backdating

Will the scandals never cease? That may not be the first question that comes to mind if you are a shareholder in one of the now 50-plus U.S. companies potentially involved in some way in options backdating, but it must surely have crossed the minds of U.S. legislators and regulators, not to mention the American public at large, as this latest in a seemingly endless stream of corporate governance-related scandals comes to light.

Perhaps most vexing of all is the sheer diversity of the companies so far implicated in options backdating, across a relatively wide range of industries and sizes, and including a number of firms with otherwise pristine credentials. A clear majority of these companies were, and still are, large option grantors; from typically high growth industries; and at least seven are currently in violation of Section 404 of Sarbanes-Oxley (SOX 404). But beyond a basic reliance on options as a means of rewarding high growth management, they have little else in common, particularly regarding their corporate governance policies and practices.

The directors involved, who must ultimately accept responsibility for any decisions related to options backdating made by these boards, are equally diverse. They include a wide range from active CEOs to fully independent directors. Diverse, too, are the independent auditors employed by these companies; certainly all of the 'Big Four' are represented.

Eight individual directors sit or have sat on at least two of these boards (see the table below). We plan to explore in depth the specific linkages between these particular companies and individuals, but only two of these individuals, Glen M. Antle and John L. Doyle, sat on either the compensation or audit committees of *both* boards.

Company Name	Ticker	First Name	Last Name	Age	Dir Since
Semtech Corporation	SMTC	Glen M.	Antle	67	2002
Trident Microsystems, Inc.	TRID	Glen M.	Antle	67	1992
Analog Devices, Inc.	ADI	John L.	Doyle	74	1987
Xilinx, Inc.	XLNX	John L.	Doyle	74	1994
Analog Devices, Inc.	ADI	Jerald G.	Fishman	60	1991
Xilinx, Inc.	XLNX	Jerald G.	Fishman	60	2000
Rambus Inc.	RMBS	Harold E.	Hughes, Jr.	60	2003
Xilinx, Inc.	XLNX	Harold E.	Hughes, Jr.	60	2003
Equinix, Inc.	EQIX	Scott G.	Kriens	48	2000
Juniper Networks, Inc.	JNPR	Scott G.	Kriens	48	1996
Juniper Networks, Inc.	JNPR	Kenneth	Levy	63	2003
KLA-Tencor Corporation	KLAC	Kenneth	Levy	63	1975
Broadcom Corporation	BRCM	Scott A.	McGregor	50	2005
Progress Software Corporation	PRGS	Scott A.	McGregor	50	1998
Intuit, Inc.	INTU	Stratton D.	Sclavos	45	2001
Juniper Networks, Inc.	JNPR	Stratton D.	Sclavos	45	2000

Our initial review of these companies suggests the need for a much deeper understanding of the specific compensation policies and practices that enabled the abuse in question, and we plan to release the results of this more extensive research today. We have already implemented a range of rating changes

that we feel best reflect our current understanding of the potential risks that are most likely to impact these firms over the coming weeks and months:

- For those companies currently under active SEC or other external investigation, we've assigned an overall D rating, regardless of their current rating, unless it is already lower. Unless and until cleared by these investigations, all of these companies would seem to be at considerable risk due to potential defense costs and negative market perceptions.
- For those companies where other serious concerns exist, such as SOX 404 non-compliance or violation, we may also have assigned an overall F rating, but only where we believe that the company is at serious risk of failure or acquisition.
- For most of the other companies currently implicated we have implemented a one letter downgrade, except for those cases where this issue compounds other existing problems, such as SOX 404 violation. In those cases the combination might demand an even more substantial downgrade; these have been assigned on a company-by-company basis. These downgrades mainly reflect our concern about the impact of negative market perception.
- Allegations of intended and outright fraud have proven the most difficult to assess, as many of these allegations will focus on individuals rather than companies, particularly where the individuals in question have since left the companies involved. Rating downgrades at these companies have also been assigned on a company-by-company basis.

These rating changes are reflected in the ratings of all companies implicated in options backdating as of Monday, July 10, 2006.

To facilitate tracking and deeper study of the companies and individual directors involved in this scandal, we have also created a special watch page, accessible via the Board Analyst entry page to all Board Analyst subscribers (<http://www.boardanalyst.com/backdatingoptionswatch.aspx>), which will be updated every Monday. New developments at each company will be reported in the events section of their Board Analyst profile, also updated weekly, and The Corporate Library will continue to report on the broader implications of options backdating on a regular basis as well.

Ric Marshall, Chief Analyst, 7/10/06