

SILICON STORAGE TECHNOLOGY INC  
Form DEF 14A  
May 29, 2008

**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

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to §240.14a-12

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

**SILICON STORAGE TECHNOLOGY, INC.**

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

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

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

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

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

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(4) Proposed maximum aggregate value of transaction:

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(1) Amount Previously Paid:

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

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(3) Filing Party:

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(4) Date Filed:

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**SILICON STORAGE TECHNOLOGY, INC.**

**1171 Sonora Court**

**Sunnyvale, California 94086**

**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS**

**TO BE HELD ON JUNE 27, 2008**

TO THE SHAREHOLDERS OF SILICON STORAGE TECHNOLOGY, INC.:

**Notice Is Hereby Given** that the 2008 Annual Meeting of Shareholders of Silicon Storage Technology, Inc., a California corporation, will be held on Friday, June 27, 2008 at 3:00 p.m., Pacific Time, at our offices located at 1020 Kifer Road, Sunnyvale, California 94086 for the following purposes:

1. To elect six directors to serve for the ensuing year and until their successors are elected.
2. To approve the 2008 Equity Incentive Plan.
3. To ratify the selection of PricewaterhouseCoopers LLP as our independent registered public accounting firm for the year ending December 31, 2008.
4. To transact such other business as may properly come before the meeting or any adjournment or postponement thereof.

The foregoing items of business are more fully described in the Proxy Statement accompanying this Notice.

The Board of Directors has fixed the close of business on April 29, 2008, as the record date for the determination of shareholders entitled to notice of and to vote at this Annual Meeting and at any adjournment or postponement thereof.

By Order of the Board of Directors

/s/ JAMES B. BOYD

JAMES B. BOYD

*Chief Financial Officer and*

*Senior Vice President of Finance*

Sunnyvale, California

May 29, 2008

**ALL SHAREHOLDERS ARE CORDIALLY INVITED TO ATTEND THE MEETING IN PERSON. WHETHER OR NOT YOU EXPECT TO ATTEND THE MEETING, PLEASE COMPLETE, DATE, SIGN AND RETURN THE ENCLOSED PROXY AS PROMPTLY AS POSSIBLE IN ORDER TO ENSURE YOUR REPRESENTATION AT THE MEETING. A RETURN ENVELOPE (WHICH IS POSTAGE PREPAID IF MAILED IN THE UNITED STATES) IS ENCLOSED FOR THAT PURPOSE. SHARES MAY ALSO BE VOTED ELECTRONICALLY VIA THE INTERNET OR BY TELEPHONE. EVEN IF YOU HAVE GIVEN YOUR PROXY, YOU MAY STILL VOTE IN PERSON IF YOU ATTEND THE MEETING. PLEASE NOTE, HOWEVER, THAT IF YOUR SHARES ARE HELD OF RECORD BY A BROKER, BANK OR OTHER NOMINEE AND YOU WISH TO VOTE AT THE MEETING, YOU MUST OBTAIN FROM THE RECORD HOLDER A PROXY ISSUED IN YOUR NAME.**

**SILICON STORAGE TECHNOLOGY, INC.**

**1171 Sonora Court**

**Sunnyvale, California 94086**

**PROXY STATEMENT**

**FOR 2008 ANNUAL MEETING OF SHAREHOLDERS**

**June 27, 2008**

**INFORMATION CONCERNING SOLICITATION AND VOTING**

**Why am I receiving these materials?**

The enclosed proxy is solicited on behalf of the Board of Directors of Silicon Storage Technology, Inc., a California corporation, or SST, for use at the 2008 Annual Meeting of Shareholders to be held on Friday, June 27, 2008 at 3:00 p.m., Pacific Time, or at any adjournment or postponement thereof, for the purposes set forth herein and in the accompanying Notice of Annual Meeting.

We intend to mail this proxy statement, accompanying proxy card, and our 2007 Annual Report on Form 10-K on or about June 2, 2008, to all shareholders entitled to vote at the Annual Meeting. If your shares are held in a bank or brokerage account, you may be eligible to vote your proxy electronically. Please refer to the enclosed voting form from your bank or brokerage for instructions.

**Where is the Annual Meeting going to be?**

The Annual Meeting will be held at our offices located at 1020 Kifer Road, Sunnyvale, California 94086.

**Who is paying for this proxy solicitation?**

We will bear the entire cost of solicitation of proxies, including preparation, assembly, printing and mailing of this proxy statement, the proxy and any additional information furnished to shareholders. Copies of solicitation materials will be furnished to banks, brokerage houses, fiduciaries and custodians holding in their names shares of common stock beneficially owned by others to forward to such beneficial owners. We may reimburse persons representing beneficial owners of common stock for their costs of forwarding solicitation materials to such beneficial owners. Original solicitation of proxies by mail may be supplemented by telephone, telegram, or personal solicitation by directors, officers, or other regular employees. No additional compensation will be paid to our directors, officers, or other regular employees for such services.

**Who can vote at the Annual Meeting?**

Only holders of record of our common stock at the close of business on April 29, 2008 will be entitled to notice of and to vote at the Annual Meeting. At the close of business on April 29, 2008, we had outstanding and entitled to vote 102,204,557 shares of common stock.

**How many votes do I have?**

Each holder of record of our common stock on such date will be entitled to one vote for each share held on all matters to be voted upon. With respect to the election of directors, shareholders may not exercise cumulative voting rights.

**What is the difference between a shareholder of record and a beneficial holder?**

*Shareholder of Record.* You are a shareholder of record if on April 29, 2008 your shares were registered directly in your name with American Stock Transfer & Trust Company, our transfer agent. As of April 29, 2008, we had 453 shareholders of record.

*Beneficial Owner.* You are considered to be a beneficial owner if on April 29, 2008 your shares were held through a broker or other nominee and not in your name. Being a beneficial owner means that, like most of our shareholders, your shares are held in street name and your broker sends these proxy materials to you. Since you are a beneficial owner, your broker or other nominee is the shareholder of record of your shares. As a beneficial owner, you have the right to direct your broker on how to vote the shares in your account. However, because you are not the shareholder of record, if you would like to vote your shares in person at the Annual Meeting you must obtain a legally valid proxy from your broker prior to the Annual Meeting.

**What is the quorum requirement?**

A quorum of shareholders is necessary to hold a valid meeting. A quorum will be present if at least a majority of the outstanding shares are represented by shareholders present at the meeting or by proxy. All votes will be tabulated by the inspector of election appointed for the meeting, who will separately tabulate affirmative and negative votes, abstentions, and broker non-votes. Abstentions and broker non-votes are counted towards a quorum but are not counted for any purposes in determining whether a matter is approved, except that abstentions will have the same effect as negative votes with respect to proposals 2 and 3.

**How many votes are needed to approve each proposal?**

For Proposal 1 (the election of directors), the nominees receiving the most For votes (from the holders of shares present in person or represented by proxy and entitled to vote on the election of directors) will be elected. Only votes For or Withheld will affect the outcome.

For Proposal 2 (the approval of the 2008 Equity Incentive Plan), the 2008 Equity Incentive Plan must receive For votes from the holders of a majority of shares present and entitled to vote either in person or by proxy. If you Abstain from voting, it will have the same effect as an Against vote. Broker non-votes will have no effect.

For Proposal 3 (the ratification of PricewaterhouseCoopers LLP as our independent registered public accounting firm for the year ending December 31, 2008), PricewaterhouseCoopers LLP must receive For votes from the holders of a majority of shares present and entitled to vote either in person or by proxy. If you Abstain from voting, it will have the same effect as an Against vote. Broker non-votes will have no effect.

**How do I vote?**

Shareholders may grant a proxy to vote their shares by means of the telephone or on the Internet. The telephone and Internet voting procedures below are designed to authenticate shareholders' identities, to allow shareholders to grant a proxy to vote their shares and to confirm that shareholders' instructions have been recorded properly. Shareholders granting a proxy to vote via the Internet should understand that there may be costs associated with electronic access, such as usage charges from Internet access providers and telephone companies, that must be borne by the shareholder.

*For Shares Registered in Your Name*

Shareholders of record may go to <http://www.proxyvote.com> to vote their shares by means of the Internet. They will be required to provide the company number and control number contained on their proxy cards. The shareholder will then be asked to complete an electronic proxy card. The votes represented by such proxy will be generated on the computer screen, and the shareholder will be prompted to submit or revise them as desired. Shareholders of record may also vote their shares by telephone at 1-800-690-6903.

*For Shares Registered in the Name of a Broker or Bank*

If your shares are held by your broker as your nominee, you will need to obtain a proxy form from the institution that holds your shares and follow the instructions included on that form regarding how to instruct your broker to vote your shares. If you do not give instructions to your broker, your broker can vote your shares with respect to discretionary items, but not with respect to non-discretionary items. Discretionary items are proposals considered routine under the rules of the New York Stock Exchange, on which your broker may vote shares held in street name in the absence of your voting instructions. On non-discretionary items for which you do not give your broker instructions, the shares will be treated as broker non-votes. Under the rules and interpretations of the New York Stock Exchange non-routine matters are generally those involving a contest or a matter that may substantially affect the rights or privileges of stockholders, such as mergers, stockholder proposals and equity incentive plans. Proposal 2 is a non-routine matter and your broker cannot vote your shares without instruction from you.

A number of brokers and banks are participating in a program provided through Broadridge that offers the means to grant proxies to vote shares by means of the telephone and Internet. If your shares are held in an account with a broker or bank, you may grant a proxy to vote those shares telephonically by calling the telephone number shown on the instruction form received from your broker or bank, or via the Internet at Broadridge's web site at <http://www.proxyvote.com>.

*General Information for All Shares Voted via the Internet or by Telephone*

Votes submitted via the Internet or by telephone must be received by 11:59 p.m., Eastern Time, on June 26, 2008. Submitting your proxy via the Internet or by telephone will not affect your right to vote in person should you decide to attend the Annual Meeting. If you are a shareholder of record and you attend the Annual Meeting we will provide you with a proxy card at the Annual Meeting upon your request. If your shares are held in the name of a broker or a bank and you attend the Annual Meeting and wish to vote at the Annual Meeting you must obtain a valid proxy from your broker or bank to vote.

**What does it mean if I receive more than one proxy card?**

If you received more than one proxy card, your shares are registered in more than one name or are held in different accounts. Please complete, sign and return each proxy card to ensure that all of your shares are voted. If you would like to modify your instructions so that you receive one proxy card for each account or name, please contact your broker.

**Can I change my vote after submitting my proxy?**

Yes. You may revoke your proxy at any time before the final vote at the Annual Meeting in any one of the following four ways:

you may submit another properly completed proxy card with a later date;

you may send a written notice that you are revoking your proxy to Silicon Storage Technology, Inc., 1171 Sonora Court, Sunnyvale, California 94086, attention: Corporate Secretary;

you may attend the annual meeting and vote in person; however, attendance at the Annual Meeting will not, by itself, revoke a proxy; or

you may submit another proxy by telephone or Internet after you have already provided an earlier proxy.

**How can I find out the results of the voting at the Annual Meeting?**

Preliminary voting results will be announced at the Annual Meeting. Final voting results will be published in our Quarterly Report on Form 10-Q for our second quarter ending June 30, 2008, which will be filed with the Securities and Exchange Commission by August 11, 2008.

**When are shareholder proposals due for the 2009 Annual Meeting?**

Pursuant to Rule 14a-8 of the Securities Exchange Act of 1934, as amended, proposals of shareholders that are intended to be presented at our 2009 Annual Meeting of Shareholders must be received by us not later than January 29, 2009 in order to be included in the Proxy Statement and proxy relating to the 2009 Annual Meeting of Shareholders. Pursuant to our bylaws, shareholders who wish to bring matters or propose nominees for director at our 2009 Annual Meeting of Shareholders must provide specified information to us between January 28, 2009 and February 27, 2009. Shareholders are also advised to review our bylaws, which contain additional requirements with respect to advance notice shareholder proposals and director nominations. Proposals and nominations must be submitted to our Corporate Secretary at Silicon Storage Technology, Inc., 1171 Sonora Court, Sunnyvale California 94086.

**How can I sign up to access future shareholder communication electronically?**

Registered and beneficial shareholders now have the option to receive shareholder material electronically. By signing up for electronic delivery of shareholder material such as the annual report and proxy statement, shareholders will receive electronic notification as soon as the shareholder material becomes available online without having to wait for the material to arrive in the mail. To sign up for electronic delivery of our future annual reports and proxy statements, please visit our web site at <http://www.sst.com/investors/edelivery.xhtml>. Shareholder enrollment will be effective until cancelled. Shareholders may call Silicon Storage Technology, Inc., Investor Relations at (408) 735-9110 for questions about electronic delivery.

**What does it mean if multiple members of my household are shareholders but we only received one set of proxy materials?**

The Securities and Exchange Commission has adopted rules that permit companies and intermediaries (e.g., brokers) to satisfy the delivery requirements for proxy statements and annual reports with respect to two or more shareholders sharing the same address by delivering a single proxy statement addressed to those shareholders. This process, which is commonly referred to as householding, potentially means extra convenience for shareholders and cost savings for companies.

This year, a number of brokers with account holders who are our shareholders will be householding our proxy materials. A single proxy statement will be delivered to multiple shareholders sharing an address unless contrary instructions have been received from the affected shareholders. Once you have received notice from your broker that they will be householding communications to your address, householding will continue until you are notified otherwise or until you revoke your consent.

If, at any time, you no longer wish to participate in householding and would prefer to receive a separate proxy statement and annual report, please notify your broker, or direct your written request to Investor Relations, via telephone at (408) 735-9110 or facsimile at (408) 735-9036. Shareholders who currently receive multiple copies of the proxy statement at their address and would like to request householding of their communications should contact their broker.



**PROPOSAL 1**

**ELECTION OF DIRECTORS**

The Board of Directors is presently composed of seven members, five of whom are non-employee, independent directors. There are no vacancies. Yasushi Chikagami and Tsuyoshi Taira have informed us that they intend to retire as members of the Board of Directors and will not stand for re-election at the Annual Meeting. Therefore, there are six nominees for election to the Board of Directors, and the size of the Board of Directors will be reduced to six members with no vacancies following the Annual Meeting. Each director to be elected will hold office until the next annual meeting of shareholders and until his successor is elected and has qualified, or until such director's earlier death, resignation or removal. Each nominee listed below, other than Mr. Riley, is currently one of our directors. All of the nominees, except for Messrs. Riley and Yang, were previously elected by our shareholders. Mr. Yang was appointed to the Board of Directors in October 2007 and was a nominee identified by Egon Zehnder International, a third-party recruiting firm. Mr. Riley was nominated to the Board by Riley Investment Partners Master Fund, L.P., with whom we have entered into a settlement agreement. Please see the description of the settlement agreement below under *Settlement Agreement*.

Shares represented by the executed proxies will be voted, if authority to do so is not withheld, for the election of the six nominees named below. In the event that any nominee should be unavailable for election as a result of an unexpected occurrence, such shares will be voted for the election of such substitute nominee as management may propose. Each person nominated for election has agreed to serve if elected and we have no reason to believe that any nominee will be unable to serve. It is our policy to invite nominees for directors to attend our annual meetings. All of our directors attended the 2006 Annual Meeting.

The candidates receiving the highest number of affirmative votes of the shares entitled to be voted will be elected to our Board of Directors. Abstentions will have no effect on the vote. The names of the nominees and certain information about them are set forth below:

<b>Name</b>	<b>Age</b>	<b>Position</b>
Bing Yeh	57	Chairman, President and Chief Executive Officer
Yaw Wen Hu	58	Executive Vice President and Chief Operating Officer
Ronald D. Chwang	60	Director
Terry M. Nickerson	68	Director
Bryant R. Riley	41	Director
Edward Yao-Wu Yang	59	Director

**Bing Yeh**, one of our co-founders, has served as our President and Chief Executive Officer and has been a member of our Board of Directors since our inception in 1989. In April 2004, he was appointed Chairman of the Board of Directors. Prior to that, Mr. Yeh served as a senior research and development manager of Xicor, Inc., a nonvolatile memory semiconductor company. From 1981 to 1984, Mr. Yeh held program manager and other positions at Honeywell Inc. From 1979 to 1981, Mr. Yeh was a senior development engineer of EEPROM technology of Intel Corporation. He was a Ph.D. candidate in Applied Physics and earned an Engineer Degree in Electrical Engineering from Stanford University. Mr. Yeh holds an M.S. and a B.S. in Physics from National Taiwan University.

**Yaw Wen Hu, Ph.D.**, joined us in July 1993 as Vice President, Technology Development. In August 1999, he became Vice President, Operations and Process Development. In January 2000, he was promoted to Senior Vice President, Operations and Process Development. In April 2004, he was promoted to Executive Vice President and Chief Operating Officer. Dr. Hu has been a member of our Board of Directors since September 1995. From 1990 to 1993, Dr. Hu served as deputy general manager of technology development of Vitelec Taiwan Corporation. From 1988 to 1990, he served as FAB engineering manager of Integrated Device

Technology, Inc. From 1985 to 1988, he was the director of technology development at Vitelic Corporation. From 1978 to 1985, he worked as a senior staff engineer in Intel Corporation's Technology Development Group. Dr. Hu holds a B.S. in Physics from National Taiwan University and an M.S. in Computer Engineering and a Ph.D. in Applied Physics from Stanford University.

**Ronald D. Chwang, Ph.D.**, has been a member of our Board of Directors since June 1997. Since 1997, Dr. Chwang has been the Chairman and President of iD Ventures America, a venture capital management company (formerly known as Acer Technology Ventures) under the iD SoftCapital Group. Dr. Chwang also serves on the Board of Directors of iRobot Corporation. From 1986 to 1997, Dr. Chwang was with various Acer entities, serving in executive positions in leading business units engaged in ASIC products, computer peripherals, and enterprise server systems. From 1992 to 1997, he was President and Chief Executive Officer of Acer America Corporation. Before joining the Acer entities, Dr. Chwang worked in development and management positions at Intel and Bell Northern Research. Dr. Chwang holds a B.Eng. (with honors) in Electrical Engineering from McGill University in Montreal, Canada and a Ph.D. in Electrical Engineering from the University of Southern California.

**Terry M. Nickerson** has been a member of our Board of Directors since April 2005. From 2000 to 2005, Mr. Nickerson served as the Senior Vice President of Finance and Chief Financial Officer of ATI Technologies, Inc., a semiconductor manufacturer. From 1988 to 1990, he served as Chief Financial Officer of Northern Telecom Ltd. While with Northern Telecom, he was also President of Northern Telecom Electronics, a subsidiary responsible for Northern Telecom's ASIC and Printed Circuit Board manufacturing. Mr. Nickerson spent over 18 years at IBM primarily in Finance and Planning roles. He was also General Manager of the IBM plant in Don Mills, Ontario, which later became Celestica Inc. While with both IBM and Northern Telecom, he served on international assignments covering Asia, Europe, and Latin America. Mr. Nickerson is also a director of Miranda Technologies Inc. and Tundra Semiconductor Corporation. Mr. Nickerson holds a B.Sc. in Metallurgy Engineering from Queen's University and an M.B.A. from Harvard University.

**Bryant R. Riley** has been the Managing Member and founder of Riley Investment Management LLC and founder and Chairman of B. Riley & Co., LLC, a Southern California-based brokerage and investment banking firm providing research and trading ideas primarily to institutional investors since 1997. Riley Investment Management LLC is an investment adviser, which provides investment management services, and is the general partner of Riley Investment Partners Master Fund, L.P. Mr. Riley is also a director of Aldila, Inc., Alliance Semiconductor Corporation, DDi Corp., and Kitty Hawk, Inc. Mr. Riley holds a B.S. in Finance from Lehigh University.

**Edward Yao-Wu Yang** has been a member of our Board of Directors since October 2007. From 1998 to 2005, Mr. Yang served as Vice President and Chief Technology Officer of the Personal Systems Group of the Hewlett-Packard Company, a hardware and software technology company. From 1995 to 1998, Mr. Yang served as Group R&D Manager for the Personal Systems Group of the Hewlett-Packard Company. Mr. Yang holds a B.S. in Electrical Engineering from the National Cheng-Kung University (Taiwan) and an M.S. in Electrical Engineering from Oregon State University.

**THE BOARD OF DIRECTORS RECOMMENDS**

**A VOTE IN FAVOR OF EACH NAMED NOMINEE**

## INFORMATION REGARDING THE BOARD OF DIRECTORS AND ITS COMMITTEES

### Independence of the Board of Directors

As required under NASDAQ listing standards, a majority of the members of a listed company's board of directors must qualify as independent, as affirmatively determined by the board of directors. Our Board of Directors consults with our outside legal counsel to ensure that its determinations are consistent with all relevant securities and other laws and regulations regarding the definition of independent, including those set forth in pertinent NASDAQ listing standards, as in effect time to time.

Consistent with these considerations, after review of all transactions or relationships between each director, or any of his family members, and SST, our senior management and our independent registered public accounting firm, the Board has affirmatively determined that all of our directors are independent directors within the meaning of the applicable NASDAQ listing standards, except for Mr. Yeh, our President, Chief Executive Officer and Chairman of the Board, and Dr. Hu, our Executive Vice President and Chief Operating Officer. In making this determination, the Board found that none of these directors had a material disqualifying relationship with us.

### Corporate Governance Policies

In April 2004, our Board of Directors documented the governance practices followed by us by adopting Corporate Governance Policies to assure that the Board will have the necessary authority and practices in place to review and evaluate our business operations as needed and to make decisions that are independent of our management. The policies are also intended to align the interests of directors and management with those of our shareholders. The Corporate Governance Policies set forth the practices the Board will follow with respect to board composition and selection, board meetings and involvement of senior management, Chief Executive Officer performance evaluation and succession planning, and board committees and compensation. The Corporate Governance Policies were adopted by the Board to, among other things, reflect changes to the NASDAQ listing standards and Securities and Exchange Commission rules adopted to implement provisions of the Sarbanes-Oxley Act of 2002. The Corporate Governance Policies, as well as the charters for each committee of the Board, may be viewed at <http://www.sst.com>. The contents of our website are not part of this proxy statement.

### Meeting Information

The Board of Directors met five times during 2007. All directors attended at least 75% of the aggregate of the meetings of the Board of Directors, and all directors attended at least 75% of the aggregate of the meetings of the committees on which they served, held during the period for which they were a director or committee member, respectively. In 2007, our independent directors other than Mr. Chikagami met in executive session during the meetings of the Audit Committee.

The following table provides membership and meeting information for 2007 for each of these Board committees:

Name	Audit	Compensation	Nominating and Corporate Governance
Bing Yeh			
Yaw Wen Hu			
Yasushi Chikagami		X	X
Ronald D. Chwang(1)	X	X	X*
Terry M. Nickerson	X*	X	X
Tsuyoshi Taira	X	X*	X
Edward Yao-Wu Yang(2)		X*	
Total meetings in 2007	4	6	2

\* Chairperson

(1) Dr. Chwang is our lead independent director.

(2) Mr. Yang was appointed to the Board of Directors effective October 16, 2007 and assumed chairmanship of the Compensation Committee in the fourth quarter of 2007.

**Committee Information**

Below is a description of each committee of the Board of Directors. Each committee has the authority to engage legal counsel or other experts or consultants, as it deems appropriate to carry out its responsibilities. The Board of Directors has determined that each member of each committee meets the applicable rules and regulations regarding independence and that each member is free of any relationship that would interfere with his individual exercise of independent judgment with regard to SST.

*Audit Committee*

The Audit Committee of the Board of Directors oversees our corporate accounting and financial reporting process. For this purpose, the Audit Committee performs several functions:

evaluates the performance and assesses the qualifications of the independent registered public accounting firm;

determines and approves the engagement of the independent registered public accounting firm;

determines whether to retain or terminate the existing independent registered public accounting firm or to appoint and engage a new independent registered public accounting firm;

reviews and approves the retention of the independent registered public accounting firm to perform any proposed permissible non-audit services;

monitors the rotation of partners of the independent registered public accounting firm on our audit engagement team as required by law;

confers with management and the independent registered public accounting firm regarding the effectiveness of internal controls over financial reporting;

establishes procedures, as required under applicable law, for the receipt, retention and treatment of complaints we receive regarding accounting, internal accounting controls or auditing matters and the confidential and anonymous submission by employees of concerns regarding questionable accounting or auditing matters;

reviews the financial statements to be included in our Annual Report on Form 10-K; and

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discusses with management and the independent registered public accounting firm the results of the annual audit and the results of their review of our quarterly financial statements.

Three directors currently comprise the Audit Committee: Messrs. Taira and Nickerson and Dr. Chwang. Mr. Yang will replace Mr. Taira on the Audit Committee immediately following the Annual Meeting.

The Board of Directors annually reviews the NASDAQ listing standards definition of independence for Audit Committee members and has determined that all members of our Audit Committee are independent (as independence is currently defined in Rule 4350(d)(2)(A)(i) and (ii) of the NASDAQ listing standards). The Board of Directors has further determined that Mr. Nickerson qualifies as an audit committee financial expert, as defined in applicable SEC rules. The Board made a qualitative assessment of Mr. Nickerson's level of knowledge and experience based on a number of factors, including his formal education and experience as Chief Financial Officer of both Northern Telecom Ltd. and ATI Technologies Inc.

*Compensation Committee*

The Compensation Committee of the Board of Directors:

reviews and approves the overall compensation strategy and policies for SST;

reviews and approves corporate performance goals and objectives relevant to the compensation of our executive officers and other senior management;

determines the compensation and other terms of employment of our Chief Executive Officer;

reviews and approves the compensation and other terms of employment of the other executive officers and senior management; and

administers our stock option and employee stock purchase plans, bonus plans, and similar programs.

Five directors currently comprise the Compensation Committee: Messrs. Taira, Chikagami, Nickerson and Yang and Dr. Chwang. All members are independent (as independence is currently defined in Rule 4200(a)(15) of the NASDAQ listing standards). Mr. Riley will join the Compensation Committee upon election to the Board of Directors.

We also have a Non-Officer Stock Award Committee that grants stock awards pursuant to the 1995 Equity Incentive Plan to employees who are not executive officers. The grants must be in accordance with guidelines adopted by the Compensation Committee. Except as approved by the Compensation Committee, the grants must not exceed 36,000 shares to any individual. This committee has one member: Mr. Yeh, who is our President and Chief Executive Officer.

*Nominating and Corporate Governance Committee*

The Nominating and Corporate Governance Committee of the Board of Directors:

identifies, reviews and evaluates candidates to serve as directors of the company (consistent with criteria approved by the Board);

reviews and evaluates incumbent directors;

recommends candidates to the Board for election to the Board;

makes recommendations to the Board regarding membership on committees of the Board;

assesses the performance of the Board; and

reviews and assesses our corporate governance principles.

During 2007, four directors comprised the Nominating and Corporate Governance Committee: Messrs. Taira, Chikagami and Nickerson and Dr. Chwang. All members are independent (as independence is currently defined in Rule 4200(a)(15) of the NASDAQ listing standards). Mr. Riley will join the Nominating and Corporate Governance Committee upon election to the Board of Directors and Mr. Yang will also join

the Nominating and Corporate Governance Committee following the Annual Meeting.

**Nominating Criteria and Procedures**

The Nominating and Corporate Governance Committee believes that candidates for director should have certain minimum qualifications, including being able to read and understand basic financial statements, being over 21 years of age and having the highest personal integrity and ethics. The Nominating and Corporate Governance Committee also intends to consider such factors as possessing relevant expertise upon which to be able to offer advice and guidance to management, having sufficient time to devote to the affairs of SST, demonstrated excellence in his or her field, having the ability to exercise sound business judgment and having the commitment to rigorously represent the long-term interests of our shareholders. However, the Nominating and

Corporate Governance Committee retains the right to modify these qualifications from time to time. Candidates for director nominees are reviewed in the context of the current composition of the Board, the operating requirements of SST and the long-term interests of shareholders. In conducting this assessment, the Nominating and Corporate Governance Committee considers diversity, age, skills, and such other factors as it deems appropriate given the current needs of the Board and SST, to maintain a balance of knowledge, experience and capability. In the case of incumbent directors whose terms of office are set to expire, the Nominating and Corporate Governance Committee reviews such directors overall service to SST during their term, including the number of meetings attended, level of participation, quality of performance, and any other relationships and transactions that might impair such directors' independence. In the case of new director candidates, the Nominating and Corporate Governance Committee also determines whether the nominee must be independent for NASDAQ purposes, which determination is based upon applicable NASDAQ listing standards, applicable SEC rules and regulations and the advice of counsel, if necessary. The Nominating and Corporate Governance Committee conducts any appropriate and necessary inquiries into the backgrounds and qualifications of possible candidates after considering the function and needs of the Board. The Nominating and Corporate Governance Committee meets to discuss and consider such candidates' qualifications and then selects a nominee for recommendation to the Board by majority vote. During 2007, the Nominating and Corporate Governance Committee engaged Egon Zehnder International, a third-party recruiting firm, to assist it in the process of identifying and evaluating new director candidates. Egon Zehnder International identified Mr. Yang as a potential director candidate.

The Nominating and Corporate Governance Committee will consider director candidates recommended by shareholders. The Nominating and Corporate Governance Committee does not intend to alter the manner in which it evaluates candidates, including the minimum criteria set forth above, based on whether the candidate was recommended by a shareholder or not. Shareholders who wish to recommend individuals for consideration by the Nominating and Corporate Governance Committee to become nominees for election to the Board of Directors may do so by delivering a written recommendation to the Nominating and Corporate Governance Committee at the following address: 1171 Sonora Court, Sunnyvale, California 94086, attention: Nominating and Corporate Governance Committee, generally at least 120 days prior to the anniversary date of the last annual meeting of shareholders; however, please see *Information Concerning Solicitation and Voting - When are shareholder proposals due for the 2009 Annual Meeting*. Submissions must include the full name of the proposed nominee, a description of the proposed nominee's business experience for at least the previous five years, complete biographical information, a description of the proposed nominee's qualifications as a director and a representation that the nominating shareholder is a beneficial or record owner of our stock. Any such submission must be accompanied by the written consent of the proposed nominee to be named as a nominee and to serve as a director if elected. On April 11, 2008, Riley Investment Partners Master Fund, L.P. delivered to us a Notice of Intention to Nominate Persons for Election as Directors, or the Nomination Letter, and on April 10, 2008, entities and persons affiliated with Riley Investment Management LLC, collectively, the Riley Group, filed a preliminary proxy statement on Schedule 14A with the Securities and Exchange Commission announcing its intent to solicit proxies for the election of its own opposition slate of nominees for election to the Board of Directors at the 2008 annual meeting of shareholders. Other than such notice, to date, the Nominating and Corporate Governance Committee has not received a timely director nominee from a shareholder or shareholders holding more than 5% of our voting stock.

#### **Settlement Agreement**

In May 2008, we entered into a settlement agreement with the Riley Group. Pursuant to the settlement agreement, we agreed to nominate Mr. Riley to our Board of Directors and to appoint him to the Compensation Committee and Nominating and Corporate Governance Committee. The Riley Group agreed to withdraw the Nomination Letter thereby terminating the opposition proxy solicitation and to vote in favor of management's slate of nominees for election to the Board of Directors at the Annual Meeting and all future annual meetings; *provided*, such slates include Mr. Riley or the Riley Group's designated nominee. The Riley Group also agreed to vote in favor of the proposals submitted by the Board of Directors at the Annual Meeting and all further annual



meetings so long as the slate includes Mr. Riley or the Riley Group's designated nominee and he has consented to be on such slate; *provided*, Mr. Riley or the Riley Group's designated nominee has voted in favor of such proposal as a member of the Board. The Riley Group has also agreed to abide by certain standstill provisions until at least June 30, 2009 and continuously thereafter; *provided*, that Mr. Riley or such alternative nominee continues to serve on our Board of Directors.

Under the standstill provisions, subject to specified exceptions, the Riley Group and their affiliates cannot, without the prior written consent of the Board, among other items:

effect or seek to effect (including, without limitation, by entering into any discussions, negotiations, agreements or understandings), offer or propose to effect, or cause or participate in, or in any way knowingly assist or facilitate any other person to effect or seek, offer or propose to effect any (x) tender offer or exchange offer, merger, acquisition or other business combination involving Silicon Storage Technology or any of our subsidiaries; (y) any form of business combination or acquisition or other transaction relating to a material amount of assets or securities of Silicon Storage Technology or any of our subsidiaries or (z) any form of restructuring, recapitalization or similar transaction with respect to Silicon Storage Technology or any of our subsidiaries;

acquire, offer or propose to acquire any voting securities (or beneficial ownership thereof), or rights or options to acquire any of our voting securities (or beneficial ownership thereof) if after any such case, immediately after the taking of such action the Riley Group, together with its respective affiliates, would in the aggregate, beneficially own more than 9.9% of the then outstanding common stock;

engage in any solicitation of proxies or consents to vote any of our voting securities in opposition to the recommendation of the Board with respect to any matter, including the election of directors;

otherwise act, alone or in concert with others, to seek to control the Board or initiate or take any action to obtain representation on the Board, or seek the removal of any director from the Board, except as permitted expressly by the Settlement Agreement; or

propose any matter for submission to a vote of our shareholders.

We also agreed to use our reasonable best efforts to identify and appoint an additional member to the Board of Directors. We have engaged Egon Zehnder International to assist us in identifying such additional member. We have agreed with the Riley Group that the unanimous recommendation of the Nominating and Corporate Governance Committee will be required before the Board will appoint such director.

#### **Shareholder Communications with the Board of Directors**

The Board of Directors has adopted a formal process by which shareholders may communicate with the Board of Directors or any of its directors. Shareholders who wish to communicate with the Board of Directors may do so by sending written communications addressed to our Corporate Secretary at 1171 Sonora Court, Sunnyvale, California 94086. All communications will be compiled by our Corporate Secretary and submitted to the Board of Directors or the individual directors on a periodic basis. If no particular director is named, letters will be forwarded, depending on the subject matter, to the Chair of the Audit, Compensation, or Nominating and Corporate Governance Committee.

#### **Code of Conduct**

We have adopted the Silicon Storage Technology, Inc. Code of Conduct that applies to all of our officers, directors and employees. The Code of Conduct is available on our website at <http://www.sst.com>. If we make any substantive amendments to the Code of Conduct or grant any waiver from a provision of the Code of Conduct to any of our executive officers or directors, we will promptly disclose the nature of the amendment or waiver on our website.

## Compensation of Directors

In April 2005, our Board of Directors, upon the recommendation of the Compensation Committee, approved the Non-Employee Director Cash Retainer Program, or the Director Retainer Program. Pursuant to the Director Retainer Program, our non-employee directors are entitled to receive between \$20,000 and \$30,000 annually and \$800 and \$1,500 per meeting, based on their position on the Board of Directors, in connection with their attendance of board and committee meetings. In addition, they are reimbursed for certain travel-related expenses in connection with attendance at Board and committee meetings in accordance with our policy. Members of our Board of Directors who are also employees of SST do not receive any cash compensation for their services as members of our Board of Directors.

Each of our non-employee directors receives stock option grants under our 1995 Non-Employee Directors' Stock Option Plan, or the Directors' Plan. The Directors' Plan has an indefinite life and will terminate once all shares reserved for issuance under the Directors' Plan have been issued. Pursuant to the Directors' Plan, upon each non-employee director's initial election or appointment to the Board, such new non-employee director receives an initial stock option grant for 45,000 shares of common stock. Pursuant to the Directors' Plan, each initial stock option grant vests as to 25% of the shares subject to the grant on the yearly anniversary of the grant date. Prior to April 2005, each such initial stock option was fully vested and exercisable upon grant. In addition, pursuant to the Directors' Plan, each non-employee director annually receives a fully vested annual stock option grant for 12,000 shares of common stock on the date of our annual meeting. Stock option grants under the Directors' Plan have a 10 year life.

The following table shows certain information with respect to the compensation of all non-employee directors for the year ended December 31, 2007.

### Director Compensation for 2007

Name	Fees Earned or	Option	Total
	Paid in Cash	Awards	
	(\$)(1)	(\$)(2)(3)	(\$)
Yasushi Chikagami	\$ 25,600	\$	\$ 25,600
Ronald D. Chwang	33,800		33,800
Terry M. Nickerson	58,400	16,063	74,463
Tsuyoshi Taira	32,520		32,520
Edward Yao-Wu Yang	6,000	9,987	15,987

- (1) Reflects retainer fees, meeting fees and committee chair fees and includes \$20,000 in fees paid to Mr. Nickerson for leading the independent review of our historical stock option grant practices.
- (2) The dollar amount in this column represent the cost for 2007 of stock option awards granted prior to 2007. In 2007, due to the restatement of our historical financial statements and the inability to hold an annual meeting, our non-employee directors did not receive an annual grant of 12,000 shares under the Directors' Plan. Each non-employee director other than Mr. Yang, received such stock option grant for 12,000 shares in May 2008. The assumptions made in the valuation of options are discussed in footnote 8, Stock-based Compensation to our consolidated financial statements contained in our Annual Report on Form 10-K for the year ended December 31, 2007. Each stock option was granted with an exercise price equal to the closing price of our common stock for the trading session ending immediately prior to the time of grant, as reported on the NASDAQ Global Market.
- (3) As of December 31, 2007, (a) Mr. Taira held stock options to purchase 116,570 shares of common stock; (b) Mr. Chikagami held stock options to purchase 96,000 shares of common stock; (c) Dr. Chwang held stock options to purchase 78,000 shares of common stock; (d) Mr. Nickerson held stock options to purchase 58,512 shares of common stock; and (e) Mr. Yang held a stock option to purchase 45,000 shares of common stock.

**PROPOSAL 2**

**APPROVAL OF 2008 EQUITY INCENTIVE PLAN**

We are asking our shareholders to approve our 2008 Equity Incentive Plan, or the 2008 Plan, at the annual meeting. On April 25, 2008, the Board approved the 2008 Plan, subject to shareholder approval. The 2008 Plan is the successor to and continuation of our 1995 Equity Incentive Plan, or the Prior Plan. The Prior Plan was originally adopted by the Board on October 3, 1995 and was subsequently originally approved by the shareholders in November 1995. If this Proposal 2 is approved by our shareholders, no additional stock awards will be granted under the Prior Plan. All outstanding stock awards granted under the Prior Plan will continue to be subject to the terms and conditions as set forth in the agreements evidencing such stock awards and the terms of the Prior Plan.

When our shareholders approve the 2008 Plan, we will be able to issue the sum of:

5,000,000 shares; plus

the additional number of shares that are subject to outstanding stock awards under the Prior Plan as of June 27, 2008 that may become available for grant under the 2008 Plan if they expire or terminate for any reason prior to exercise or settlement under the Prior Plan.

On May 7, 2008, options to purchase approximately 9,023,299 shares were outstanding under the Prior Plan and we had approximately 4,464,720 shares available for issuance, and not subject to awards outstanding. This means we are asking for approval of only 535,280 new shares over the number of shares we would have available for grant under the Prior Plan if the 2008 Plan is not approved. After carefully forecasting our anticipated growth rate for the next few years, we believe that the total of 5,000,000 shares will be sufficient for at least two years worth of equity grants under our current compensation program. We anticipate returning to shareholders for additional shares in 2010.

**Why You Should Vote for the 2008 Plan**

*Stock Options Are an Important Part of Our Compensation Philosophy*

The 2008 Plan is critical to our ongoing effort to build shareholder value. As discussed in the section entitled *Compensation Discussion and Analysis*, equity incentive awards are central to our compensation program. Our Compensation Committee and Board believe that our ability to grant stock options to new and existing employees has helped us attract, retain, and motivate key talent. Since the potential value of stock options is realized only if our share price increases, this form of compensation provides a strong incentive for employees to work to grow the business and build shareholder value, and is most attractive to employees who share the entrepreneurial spirit that has made our company a success.

The 2008 Plan will also provide us with continued flexibility in designing equity incentives in an environment where a number of companies have moved from traditional option grants to other stock awards, including stock appreciation rights, restricted stock awards, restricted stock unit awards, performance stock awards, and performance cash awards. Accordingly, the 2008 Plan will allow us to utilize a broad array of equity incentives in order to secure and retain the services of our employees, consultants and directors, and to provide incentives for such persons to exert maximum efforts for our success.

*Our Plans are Expiring*

Grants of equity awards to our employees, consultants and executive officers are currently made from our Prior Plan. Grants of equity awards to our directors are currently made from our 1995 Non-Employee Directors' Stock Option Plan, which we call our Directors' Plan. As of May 7, 2008, options to purchase approximately 442,082 shares were outstanding under the Directors' Plan and we had approximately 75,875 shares available for

issuance, and not subject to awards outstanding. In April 2009, the Prior Plan will expire and we will not be able to issue equity to our employees, consultants and executive officers unless our shareholders approve a new stock plan. In addition, after the 2008 annual stock option grants are made to the existing non-employee directors, the shares available for grant under the Directors Plan will not be sufficient to grant Mr. Riley an initial stock option grant for 45,000 shares of common stock. While we could increase cash compensation if we are unable to grant equity incentives, we anticipate that we will have difficulty attracting, retaining, and motivating our employees, consultants, executive officers and directors if we are unable to make equity grants to them. Stock options are a more effective executive compensation vehicle than cash at a growth-oriented, entrepreneurial company because they deliver high potential value with a smaller impact on current income and cash flow. Therefore, we are asking our shareholders to approve the 2008 Plan.

*The 2008 Plan Combines Compensation and Governance Best Practices*

The 2008 Plan is the successor to and continuation of the Prior Plan. We included provisions in the 2008 Plan that are designed to protect our shareholders' interests and to reflect corporate governance best practices including:

*Continued broad-based eligibility for equity awards.* We grant stock options to substantially all of our employees. By doing so, we link employee interests with shareholder interests throughout the organization and motivate our employees to act as owners of the business.

*Shareholder approval is required for additional shares.* The 2008 Plan does not contain an annual evergreen provision. The 2008 Plan authorizes a fixed number of shares, so that shareholder approval is required to issue any additional shares.

*Repricing is not allowed without prior shareholder approval.* The 2008 Plan prohibits the downward repricing of stock options and stock appreciation rights without prior shareholder approval. The Prior Plan did not require prior shareholder approval for repricing and in May 2008 we completed a repricing of stock options outstanding under the Prior Plan through an exchange program filed with the Securities and Exchange Commission on a Schedule TO because we believe it is an effective means of recognizing employee contributions and aligning employee and shareholder interests. Many of our employees held stock options with exercise prices that significantly exceeded the current trading price of our common stock and these options no longer provided the long-term incentive and retention objectives that they were intended to provide. The exchange program was designed to approximate a value for value exchange and our executive officers and members of the Board of Directors did not participate in the exchange program. If the 2008 Plan is approved shareholder approval will be required for any proposed future repricing.

*Submission of 2008 Plan amendments to shareholders.* The 2008 Plan requires shareholder approval for material amendments to the 2008 Plan, including materially increasing the benefits accrued to participants under the 2008 Plan; materially increasing the number of securities which may be issued under the 2008 Plan; materially expanding the class of individuals eligible to participate in the 2008 Plan; or materially extending the term of the 2008 Plan.

In this Proposal 2, shareholders are requested to approve the 2008 Plan. The affirmative vote of the holders of a majority of the shares present in person or represented by proxy and entitled to vote at the Annual Meeting will be required to approve the adoption of the 2008 Plan. Abstentions will be counted toward the tabulation of votes cast on proposals presented to the shareholders and will have the same effect as negative votes. Broker non-votes are counted toward a quorum, but are not counted for any purpose in determining whether this matter has been approved.

**The Board of Directors recommends that the shareholders vote FOR the approval of the 2008 Plan.**

**Description of the 2008 Equity Incentive Plan**

The material features of the 2008 Plan are outlined below. This summary is qualified in its entirety by reference to the complete text of the 2008 Plan. Shareholders are urged to read the actual text of the 2008 Plan in its entirety, which is filed with this proxy statement as *Annex A* and is available at [www.sec.gov](http://www.sec.gov).

*Background and Purpose*

The terms of the 2008 Plan provide for the grant of stock options, restricted stock, restricted stock units, stock appreciation rights, other stock-related awards, and performance awards that may be settled in cash, stock, or other property.

The purpose of the 2008 Plan is to provide a means by which employees, directors, and consultants may be given an opportunity to purchase our common stock to assist us in securing and retaining the services of such persons, to secure and retain the services of persons capable of filling such positions, and to provide incentives for such persons to exert maximum efforts for our success.

*Shares Available for Awards*

If this Proposal 2 is approved, the total number of shares of our common stock reserved for issuance under the 2008 Plan, or the Share Reserve, will consist of:

5,000,000 shares; plus