

PHOENIX TECHNOLOGIES LTD  
Form PRE 14A  
January 12, 2007  
UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

## SCHEDULE 14A

(Rule 14a-101)

### INFORMATION REQUIRED IN PROXY STATEMENT SCHEDULE 14A INFORMATION

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

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement  
 **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**  
 Definitive Proxy Statement  
 Definitive Additional Materials  
 Soliciting Material Pursuant to §240.14a-12

PHOENIX TECHNOLOGIES LTD.  
(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.  
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- (2) Aggregate number of securities to which transaction applies:
- (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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**PHOENIX TECHNOLOGIES LTD.  
915 Murphy Ranch Road  
Milpitas, California 95035  
(408) 570-1000**

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS**

**TO BE HELD ON FEBRUARY 14, 2007**

Notice is hereby given that the Annual Meeting of Stockholders of Phoenix Technologies Ltd. ( the Company or Phoenix ) will be held at the Company s offices located at 915 Murphy Ranch Road, Milpitas, California, 95035, on February 14, 2007 at 10:00 AM., Pacific Standard Time, to consider and act upon the following matters:

1. To elect two Class 2 Directors to the Board of Directors of the Company;
2. To ratify the selection by the Audit Committee of the Board of Directors of Ernst & Young LLP as the Company s independent registered public accounting firm for the 2007 fiscal year; and
3. To transact such other business as may properly come before the meeting or any adjournments thereof.

Only stockholders of record at the close of business on January 10, 2007 will be entitled to notice of and to vote at the Annual Meeting or any adjournments thereof. The stock transfer books will not be closed between the record date and the date of the Annual Meeting. A list of stockholders entitled to vote at the Annual Meeting will be available for inspection at the Company s offices for a period of ten days before the Annual Meeting.

All stockholders are cordially invited to attend the meeting. Whether or not you plan to attend, please sign and return the enclosed proxy as promptly as possible in the envelope provided. You may revoke your proxy at any time prior to the Annual Meeting. If you attend and vote at the Annual Meeting, your proxy will be automatically revoked and only your vote at the Annual Meeting will be counted.

By Order of the Board of Directors

/s/ Scott C. Taylor

Scott C. Taylor

*Secretary*

January 22, 2007

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**PROXY STATEMENT**

**PHOENIX TECHNOLOGIES LTD.**  
**915 Murphy Ranch Road**  
**Milpitas, California 95035**

**PROXY STATEMENT FOR THE ANNUAL MEETING OF STOCKHOLDERS**

**To Be Held February 14, 2007**

This Proxy Statement is furnished in connection with the solicitation by the Board of Directors (the **Board**) of Phoenix Technologies Ltd. (the **Company** or **Phoenix**) of proxies for use at the Annual Meeting of Stockholders of the Company to be held on February 14, 2007 (the **Meeting**) at the Company's offices located at 915 Murphy Ranch Road, Milpitas, California, commencing at 10:00 AM, Pacific Standard Time, and at any adjournments thereof. All proxies are solicited for the purposes set forth herein and in the Notice of Annual Meeting of Stockholders that accompanies this Proxy Statement. The date of this Proxy Statement is January 22, 2007, the approximate date on which this Proxy Statement and the accompanying form of proxy were first sent or given to stockholders.

We do not expect any matters not listed in the Proxy Statement to come before the Meeting. If any other matter is presented, your signed proxy card gives the individuals named as proxy holders the authority to vote your shares to the extent authorized by Rule 14a-4(c) under the Securities Exchange Act of 1934, as amended, which would include matters that the proxy holders did not know were to be presented at the Meeting by December 28, 2006.

**General Information**

*Certain Financial Information.* The Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2006 is enclosed with this Proxy Statement.

*Voting Securities.* Only stockholders of record as of the close of business on January 10, 2007 (the **Record Date**) will be entitled to vote at the Meeting and any adjournments thereof. As of the Record Date, there were 25,574,579 shares of the Common Stock of the Company issued and outstanding. Stockholders may vote in person or by proxy. Each holder of shares of Common Stock is entitled to one vote on the proposals presented in this Proxy Statement and one vote for each director to be elected for each share of Common Stock held. There is no cumulative voting in connection with the election of directors.

*Quorum.* The required quorum for transacting business at the Meeting is a majority of the votes eligible to be cast by holders of shares of Common Stock issued and outstanding on the Record Date. Shares that are voted **FOR**, **AGAINST** or **WITHHELD** on a matter (the **Votes Cast**) are treated as being present at the Meeting for purposes of establishing a quorum and are also treated as shares entitled to vote at the Meeting with respect to such matter. Because directors are elected by a plurality vote, shares covered by proxies marked **WITHHELD** will not affect the outcome of the election of directors.

*Abstentions.* Under the Company's bylaws and applicable Delaware law, abstentions will be counted for purposes of determining both (i) the presence or absence of a quorum for transacting business and (ii) the total number of Votes Cast with respect to a proposal (other than the election of directors). Accordingly, abstentions will have the same effect as a vote against the proposal.

*Broker Non-Votes.* Broker non-votes will be counted for purposes of determining the presence or absence of a quorum for transacting business, but will not be counted for purposes of determining the number of Votes Cast with respect to the particular proposal on which the broker has expressly not voted. Accordingly, broker non-votes

will not affect the outcome of the voting on a proposal that requires a majority of the Votes Cast (such as Proposal 2) and will have no effect on the election of directors.

*Solicitation of Proxies.* The cost of soliciting proxies will be borne by the Company. In addition to soliciting stockholders by mail and through its regular employees, the Company will request brokers, custodians, nominees and other record holders to forward copies of the proxy and other soliciting material to persons for whom they hold shares of Common Stock of the Company, and to request authority for the exercise of proxies; in such cases, the Company, upon request of the record holders, will reimburse such holders for their reasonable expenses. The Company may use the services of its officers, directors and employees to solicit proxies personally or by telephone, facsimile or electronic mail without additional compensation. The Company has also retained Morrow & Co., Inc. to assist in obtaining proxies for the Meeting from brokers, nominees of stockholders and institutional investors. The estimated fee for such services, which is not contingent upon the outcome of the voting, is \$6,500 plus out-of-pocket expenses.

*Voting of Proxies.* All shares represented by a valid proxy received prior to the Meeting will be voted, and where a stockholder specifies by means of the proxy a choice with respect to any matter to be acted upon, the shares will be voted in accordance with the specification so made. If no choice is indicated on the proxy, the shares will be voted FOR all nominees, FOR all other proposals described herein, and as the proxy holders may determine in their discretion with respect to any other matters that properly come before the Meeting. A stockholder giving a proxy has the power to revoke his or her proxy at any time prior to the time it is voted by delivering to the Secretary of the Company a written instrument revoking the proxy or a duly executed proxy with a later date, or by attending the Meeting and voting in person.

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

The Company's nominees for election at the Meeting to Class 2 of the Board are David S. Dury and Taher Elgamal (the Nominees). Mr. Dury and Dr. Elgamal are presently Class 2 Directors of the Company. Anthony Sun, currently a Class 2 Director of the Company, has decided not to stand for re-election to the Board. Pursuant to a resolution adopted by the Board at a meeting held on December 19, 2006, the Board reduced the number of authorized directors of the Company from seven to six and the number of Class 2 Directors from three to two, effective immediately prior to the commencement of the Meeting.

The Company expects each Nominee to be available to serve as a director. If, however, a Nominee is unable or declines to serve for any reason, proxies may be voted for such substitute nominee as the Board may designate. Proxies may not be voted for more than one substitute nominee.

The Company's Certificate of Incorporation and Bylaws provide for a classified Board currently consisting of two Class 1 Directors (currently Woodson Hobbs and Anthony P. Morris), three Class 2 Directors (currently Mr. Dury, Dr. Elgamal and Mr. Sun) and two Class 3 Directors (currently Dale L. Fuller and Richard A. Noling). The Class 1, 2 and 3 Directors serve staggered three-year terms. The Class 2 Directors to be elected at the Meeting will be elected to hold office until the 2010 Annual Meeting of Stockholders and until their successors have been elected and qualified.

*Nominees and Other Directors.* The name, age, principal occupations during the past five years and tenure as director are set forth below for each of the Nominees and for each director of the Company whose term of office continues after the Meeting. The Nominees are currently serving as directors of the Company.

Name	Age	Director Since	Position and Current Offices with the Company
<b>Nominees</b>			
David S. Dury	58	2002	Director; Chairman
Taher Elgamal	51	2000	Director
<b>Other Directors</b>			
Dale L. Fuller	48	2006	Director
Woodson Hobbs	59	2006	Director; President and Chief Executive Officer
Anthony P. Morris	60	1993	Director; Lead Independent Director
Richard M. Noling	58	2005	Director

Mr. Dury was appointed to the Board in October 2002 and was appointed as Chairman of the Board in September 2006. He is a co-founder and co-owner of Mentor Capital Group, LLC, which provides venture capital and services to start-up companies. Prior to founding Mentor Capital Group in 2000, Mr. Dury served as Senior Vice President and Chief Financial Officer of Aspect Development, Inc., a supplier of client/server software and reference data products, from 1996 to 2000. From 1992 to 1996, Mr. Dury was Senior Vice President and Chief Financial Officer at NetFrame Systems, Inc. From 1989 to 1992, Mr. Dury was Executive Vice President, Chief Operating Officer and Chief Financial Officer at Boole & Babbage, Inc., and from 1983 to 1989 Mr. Dury served as

President, Chief Operating Officer and Chief Financial Officer of Priam Corporation. Mr. Dury also serves on the board of directors of Intevac, Inc.

Dr. Elgamal was appointed to the Board in January 2000. He is currently the Chief Technology Officer at Tumbleweed Communications Corporation, a provider of internet security solutions. From 2005 to 2006, he was the Chairman and Chief Executive Officer of Ektasis, Inc., an internet software provider. From 1998 to 2005, Dr. Elgamal served as served as Co-Chairman of the board of directors and Chief Technology Officer of Securify, Inc., a network security management software provider Dr. Elgamal founded in 1998. Prior to founding Securify, Dr. Elgamal held the position of Chief Scientist of Netscape Communications Corp. from 1995 to 1998, where he pioneered Internet security technologies. From 1993 to 1995, Dr. Elgamal was Vice President of Advanced Technologies at UKI Electric. From 1991 to 1993, he was the Director of Engineering at RSA Security, Inc. where he produced the RSA cryptographic toolkits. Dr. Elgamal also serves on the boards of directors of hi/fn, Inc. and Tumbleweed Communications Corporation.

Mr. Fuller was appointed to the Board in November 2006. He currently serves as the Interim President and Chief Executive Officer of McAfee Inc. He joined the McAfee Inc. Board in January 2006 and became Interim President and Chief Executive Officer in October 2006. Prior to joining McAfee, Mr. Fuller served as Chief Executive Officer of Borland Software Corporation, a software development company, from 1999 until 2005. Prior to joining Borland, Mr. Fuller served as Chief Executive Officer of WhoWhere? Inc., as General Manager and Vice President of Apple Computer's Powerbook division, and as Vice President and General Manager of NEC Corporation's portable computer division.

Mr. Hobbs joined the Company as President and Chief Executive Officer and as a member of the Board of Directors of the Company in September 2006. Prior to joining the Company, Mr. Hobbs served as President, Chief Executive Officer and a member of the board of directors of Intellisync Corporation, a provider of platform-independent wireless messaging and mobile software, from 2002 to 2006. Between 1995 and 2002, Mr. Hobbs was a consulting executive for the venture capital community and a strategic systems consultant to large corporations. During this timeframe, he held the position of Interim Chief Executive Officer for various periods at the following companies: FaceTime Communications, a provider of instant messaging network-independent business solutions; Tradenable, Inc., an online escrow service company; BigBook, Inc., a provider in the online yellow pages industry; and I/PRO Corporation, a provider of quantitative measurement of Web site usage. From 1993 to 1994, Mr. Hobbs served as Chief Executive Officer of Tesseract Corporation, a human resources outsourcing and software company. Mr. Hobbs spent the early part of his career with Charles Schwab Corporation, a securities brokerage and financial service company, as its Chief Information Officer, and with Service Bureau, a division of IBM, as one of the developers and as the Director of Operations of Online Focus, an online credit union system.

Mr. Morris was appointed to the Board in 1993, and was appointed Lead Independent Director in August 2005. Mr. Morris is a principal with Morris & Associates, a strategy consulting firm he founded in 1988. Mr. Morris is also a principal in Morris Ventures LLC, a venture capital firm investing in information technology companies, and is a director of several privately held companies.

Mr. Noling was appointed to the Board in September 2005. From 2003 to September 2005, Mr. Noling served as the Chief Executive Officer of ThinGap Motor Technologies, a manufacturer of brush and brushless motors utilized in the factory automation, defense, automotive and medical device industry. He served as President, Chief Executive Officer and Chief Financial Officer of Insignia Solutions Inc., a provider of cross-platform compatibility enterprise solutions, from 1997 to 2003. He also served as a member of the board of directors of Insignia Solutions Inc. until August of 2006 and was interim Chief Executive Officer at Forest Home Ministries, a charitable institution, from November 2005 to October 2006.

#### **Board Independence**

Upon consideration of the criteria and requirements regarding director independence set forth in NASDAQ Rules 4200 and 4350, the Board has determined that each member of the Board other than Mr. Hobbs and Mr. Dury meets the standards of independence established by the NASDAQ. Mr. Hobbs is not independent because he is employed by the Company. Mr. Dury is not independent because his wife served as a consultant to the Company until June 2006 and in such capacity received remuneration in excess of the limits permitted by the NASDAQ rules

governing director independence. In the twelve months ending June 30, 2006, Ms. Dury received a total of \$67,725 for her service to the Company, and, over the length of her consulting engagement, Ms. Dury received a total of \$162,225 in compensation from the Company.

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

During the fiscal year ended September 30, 2006 (the Last Fiscal Year), the Board held a total of 13 regularly scheduled meetings, no special meetings, and took additional actions by written consent. During the Last Fiscal Year, each Board member, other than Mr. Sun, attended at least 75% of the aggregate number of meetings of the Board and meetings of the committees of the Board on which he served during the Last Fiscal Year.

The Company encourages attendance of Board members at all annual meetings. None of the Board members, other than Albert E. Sisto, the Company's former Chairman of the Board, President and Chief Executive Officer, attended the annual meeting which took place in the prior calendar year.

The Board has an Audit Committee, a Compensation Committee and a Nominating and Governance Committee.

#### *Audit Committee*

The members of the Audit Committee are Messrs. Fuller, Morris, and Noling. Dr. Elgamal was a member of the Audit Committee during the Last Fiscal Year. On November 1, 2006, the Board unanimously approved the appointment of Mr. Fuller to replace Dr. Elgamal as a member of the Audit Committee.

Each member of the Audit Committee is independent as such term is defined in the NASDAQ Rules and Rule 10A-3 of the Securities and Exchange Commission (the SEC) under the Securities Exchange Act of 1934, as amended. Mr. Noling serves as the Chairman of the Audit Committee. The Board has determined that Mr. Noling qualifies as an audit committee financial expert as defined in Item 401(h) of Regulation S-K promulgated by the SEC. During the Last Fiscal Year, the Audit Committee met 13 times, and took additional actions by written consent. The responsibilities of the Audit Committee include:

- overseeing the Company's accounting and financial reporting processes and the audits of the Company's financial statements;
- monitoring the integrity of the Company's financial statements;
- evaluating the qualifications, independence and performance of the Company's independent registered public accounting firm; and
- monitoring and reviewing the performance of the Company's internal audit function.

A copy of the Audit Committee Charter was previously attached as Appendix B to the Company's Proxy Statement dated February 17, 2004 and mailed to stockholders of record in connection with the Company's 2004 Annual Meeting of Stockholders. The Audit Committee Charter was subsequently modified, via unanimous written consent of the Board dated November 18, 2005, and is available for viewing at <http://www.phoenix.com/en/About+Phoenix/Investors/Corporate+Governance/default.htm>.

#### *Compensation Committee*

The members of the Compensation Committee are Dr. Elgamal, Mr. Morris and, until the date of the Meeting, Mr. Sun. Mr. Dury's tenure as a member of the Compensation Committee expired on March 6, 2006, the date of the annual meeting of stockholders for the fiscal year ended September 30, 2005. Mr. Morris serves as the Chairman of the Compensation Committee. Each member of the Compensation Committee is independent as such term is defined in the NASDAQ Rules. During the Last Fiscal Year, the Compensation Committee met five times, and took additional actions by written consent. The responsibilities of the Compensation Committee include:





- establishing and reviewing the Company's general compensation policies applicable to the Company's Chief Executive Officer and other executive officers;
- reviewing and approving the level of compensation, including salaries, fees, benefits, executive incentive plans and perquisites, of the Company's Chief Executive Officer and other executive officers;
- establishing and reviewing on an annual basis, the terms and conditions of employment of the Company's Chief Executive Officer and other executive officers, including, without limitation, executive perquisites and change of control benefits;
- administering the Company's stock-based incentive compensation plans; and
- reviewing and advising the Board concerning the performance of the Company's Chief Executive Officer and other executive officers.

For a complete listing of the Compensation Committee's responsibilities, please refer to the Compensation Committee Charter attached as Appendix B to the Company's Proxy Statement dated January 27, 2006 and mailed to stockholders of record in connection with the Company's 2006 Annual Meeting of Stockholders.

#### *Nominating and Corporate Governance Committee*

The members of the Nominating and Corporate Governance Committee are Dr. Elgamal and Messrs. Dury and Noling. Dr. Elgamal and Mr. Noling are independent as such term is defined in the NASDAQ Rules. Although Mr. Dury does not qualify as independent under the NASDAQ rules (see Board Independence above), the Board has determined that the appointment of Mr. Dury to the Nominating and Corporate Governance Committee is required in the best interests of the Company and its stockholders because of his experience and extensive knowledge regarding the Company's business, strategy and mission, and his ability to evaluate the extent to which a candidate's background is relevant to the Company's needs.

The Nominating and Corporate Governance Committee, which was formerly called the Nominating Committee, operates pursuant to a charter approved and adopted by the Board on May 9, 2006. A copy of the Nominating Committee charter was attached as Appendix A to the Company's Proxy Statement dated February 17, 2004 and mailed to stockholders of record in connection with the Company's 2004 Annual Meeting of Stockholders. Pursuant to a meeting held on May 9, 2006, the Board unanimously approved expanding the responsibilities of the Nominating Committee to include governance oversight. The updated Nominating and Corporate Governance Committee charter is available for viewing, at <http://www.phoenix.com/en/About+Phoenix/Investors/Corporate+Governance>. During the Last Fiscal Year, the Nominating and Corporate Governance Committee met three times.

The purpose of the Nominating and Governance Committee is to establish general qualification guidelines applicable to nominees for election to the Board and to ensure that the Board is appropriately constituted to meet its fiduciary obligations to the Company and its stockholders. The Nominating and Corporate Governance Committee identifies individuals qualified to become Board members, including nominees suggested by stockholders, and recommends nominees for appointment or election to the Board. The Nominating and Corporate Governance Committee does not use specific minimum requirements, but considers several factors to determine whether a director candidate is qualified. These factors include, but are not limited to: (i) the extent of a candidate's prior experience dealing with financial and auditing issues of a publicly traded company; (ii) the existence of significant training and experience at the policy-making level in areas of business, government, education and/or technology; (iii) specific past concentration in the areas of strategic planning, finance, business law, and management; and (iv) the extent to which the candidate's background is relevant to the Company's mission, strategy and needs. To date, the Company has not paid any fees to any third party to identify or evaluate or assist in identifying or evaluating potential nominees.

Additionally, the Nominating and Corporate Governance Committee is responsible for the creation and monitoring of the corporate governance practices of the Company. Specifically, the Nominating and Corporate Governance Committee's responsibilities include:

- overseeing the Company's processes for providing information to the Board;
- assessing the reporting channels through which the Board receives information and the quality and timeliness of information received to ensure that the Board obtains appropriately detailed information in a timely fashion;
- establishing procedures for stockholders to communicate with the Board and individual directors;
- reviewing annually the Company's corporate governance practices and code of ethics and recommending to the Board any amendments deemed necessary or appropriate; and
- overseeing an annual performance evaluation of the Board and management and reporting the results of such evaluations to the Board.

The Nominating and Corporate Governance Committee seeks to have on the Board at least one financial expert as defined in Item 401(h) of Regulation S-K promulgated by the SEC and believes that the majority of the Board must be composed of independent directors as defined in NASDAQ Rule 4200.

The Nominating and Corporate Governance Committee will consider candidates for director from any source, including director candidates recommended by stockholders. No formal procedures exist for the handling of director candidates recommended by stockholders; however, all candidates recommended by stockholders will be evaluated by the Nominating and Corporate Governance Committee in the same way and by using the same criteria and general guidelines used for all other candidates. Stockholders may submit director recommendations in writing to the Nominating and Corporate Governance Committee, c/o the Company's Chief Executive Officer at the Company's offices located at 915 Murphy Ranch Road, Milpitas, California 95035.

The Nominating and Corporate Governance Committee did not receive prior to September 29, 2006 any recommendations for director candidates from any non-management stockholder or group of stockholders that beneficially owns more than 5% of the Company's voting stock. Each Nominee included on this year's proxy card is an executive officer and/or director standing for re-election.

On December 19, 2006, in connection with the decision by Anthony Sun to not run for election to the Board at the Meeting, the Board resolved to reduce the number of Class 2 Directors from three to two effective immediately prior to the commencement of the Meeting. As a result, only two Class 2 Directors will be elected at the Meeting. Also on December 19, 2006, the Board resolved to nominate Messrs. Dury and Elgamal as its nominees for election as Class 2 Directors at the Meeting. Subsequently, in a letter dated December 27, 2006, Starboard Value and Opportunity Master Fund Ltd. (Starboard) notified the Company of its intent to nominate John Mutch, Philip Moyer and Jeffrey C. Smith as nominees for election as Class 2 Directors at the Meeting. On January 3, 2007, Starboard filed a copy of the letter as an exhibit to a Schedule 13D/A filed by Starboard and certain other parties (collectively, the Reporting Persons) with the SEC. In the Schedule 13D/A, the Reporting Persons disclosed that they had agreed to form a group for the purpose of soliciting proxies or written consents for the election of the persons nominated by Starboard to the Board at the Meeting. On January 12, 2007, the Board considered the nominees proposed by Starboard, and resolved to continue to recommend Mr. Dury and Dr. Elgamal for election as Class 2 directors at the 2007 Annual Meeting.

#### **Stockholder Communications with Directors**

The Board welcomes communications from the Company's stockholders. Any stockholder may communicate with either the Board as a whole, or with any individual director by sending a written communication c/o the Company's Lead Independent Director at the Company's offices located at 915 Murphy Ranch Road, Milpitas, California 95035. All communications sent to the Company's Lead Independent Director will be

forwarded to the Board, as a whole, or to the individual director to whom such communication was addressed, without review by management.

### **Compensation of Directors**

Members of the Board who are not employees of the Company ( Outside Directors ) are entitled to receive an annual retainer of \$20,000, a fee of \$1,500 for each meeting of the Board they attend in person and a fee of \$1,000 for each telephonic meeting of the Board that they attend. In addition, members of each Board committee, other than the Audit Committee, are entitled to receive a fee of \$1,000 for each committee meeting they attend in person and a fee of \$500 for each telephonic committee meeting that they attend. Members of the Audit Committee are entitled to receive a fee of \$1,500 for each Audit Committee meeting they attend in person and a fee of \$1,000 for each telephonic Audit Committee meeting they attend. Additionally, the Chairman of each committee, other than the Audit Committee, is entitled to receive an annual retainer of \$3,000. The Audit Committee Chairman is entitled to receive an annual retainer of \$7,500. The Chairman of the Board and Lead Independent Director are each entitled to receive an annual retainer of \$7,500. Outside Directors who reside outside of the local area are also entitled to receive reimbursement of travel expenses.

In addition, during the Last Fiscal Year, the Board approved the following additional compensation to certain directors: (a) \$28,000 was paid to Mr. Dury for responsibilities he performed as the Board's liaison to the Company's interim operating committee of senior management (established by the Board on July 25, 2006 to manage the Company's operations after Mr. Sisto's employment with the Company ended in May of 2006); (b) \$9,000 was paid to Dr. Elgamal and \$4,500 was paid to Mr. Morris for service on an ad-hoc Board Committee on product readiness; and (c) \$12,000 was paid to Mr. Dury and \$9,000 was paid to Mr. Morris for services rendered as part of the Strategic Alternatives Committee established by the Board on July 25, 2006.

Outside Directors have received options to purchase Common Stock pursuant to the Company's 1992, 1994, 1996, 1997, 1998 and 1999 equity incentive plans and the 1995 Award Software International Inc. Stock Option Plan. Outside Directors currently receive options under the 1999 Stock Plan and the 1999 Director Option Plan. Under the 1999 Director Option Plan, Outside Directors receive an initial grant of 40,000 shares upon their initial appointment to the Board and subsequent annual grants of 15,000 shares. Board member options vest and become exercisable for 100% of the shares on the date of grant and have a term of ten years. During the Last Fiscal Year, the Company granted annual stock options for 15,000 shares to each of Dr. Elgamal and Messrs. Dury, Morris, Sun and Noling and for 40,000 shares to Mr. Fuller, in each case having an exercise price equal to the fair market value of the Company's Common Stock on the date of grant. In addition, the Board approved a non-qualified stock option grant to Mr. Dury for 10,000 shares, having an exercise price equal to the fair market value of the Company's Common Stock on the date of grant, as consideration for his services as the Board's liaison to the Company's interim operating committee of senior management.

### **Required Vote**

If a quorum is present, directors shall be elected by the affirmative vote of the holders of a plurality of the shares of Common Stock present or represented at the Meeting.

***The Board of Directors Recommends a Vote FOR  
the Election of Dr. Elgamal and Mr. Dury***

**PROPOSAL NO. 2**

**RATIFICATION OF APPOINTMENT OF INDEPENDENT  
REGISTERED PUBLIC ACCOUNTING FIRM**

The Audit Committee of the Board has selected Ernst & Young LLP to continue to serve as the Company's independent registered public accounting firm for the fiscal year ending September 30, 2007. The Company is asking stockholders to ratify this appointment. If ratification by the stockholders of the appointment of Ernst & Young LLP as the Company's independent registered public accounting firm is not obtained, the Audit Committee will reconsider this appointment. Even if the appointment is ratified, the Audit Committee, in its discretion, may appoint a different independent registered public accounting firm at any time during the year if the Audit Committee determines that such a change would be in the best interests of the Company and its stockholders.

Representatives of Ernst & Young LLP are expected to be present at the Meeting. They will have the opportunity to make a statement if they desire to do so and are also expected to be available to respond to appropriate questions from stockholders.

**Required Vote**

If a quorum is present, the affirmative vote of the holders of a majority of the shares of Common Stock present or represented at the Meeting and voting on the matter is required for approval of Proposal No. 2.

*The Board of Directors Recommends a Vote FOR Ratification of the Appointment of Ernst & Young LLP as the Company's Independent Registered Public Accounting Firm for the Fiscal Year Ending September 30, 2007*

**SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

The following table sets forth certain information as of January 8, 2007, with respect to the Common Stock owned beneficially by (i) any person who is known to the Company to be the beneficial owner of more than 5% of its Common Stock, (ii) each director and Nominee of the Company, (iii) the Chief Executive Officer and each executive officer included in the Summary Compensation Table on page 12 (collectively, the Named Executive Officers), and (iv) all current directors and executive officers of the Company as a group. Except as otherwise indicated in the table, the address of each person listed in the table is c/o Phoenix Technologies Ltd., 915 Murphy Ranch Road, Milpitas, California 95035. Except as otherwise indicated in the footnotes to the table, to the Company's knowledge, the persons named in the table have sole voting and investment power with respect to all shares of Common Stock shown as beneficially owned by them, subject to community property laws where applicable.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Common Stock Outstanding(1)	
Starboard Value and Opportunity Master Fund Ltd. (2) 666 Third Avenue 26th Floor New York, NY 10017	3,502,941	13.7	%
Austin W. Marxe & David M. Greenhouse (3) 527 Madison Avenue, Suite 2600 New York, New York 10022	3,227,776	12.6	%
Barclays Global Fund Advisors, LLC (4) 1414 Avenue of the Americas New York, NY 10019	1,897,062	7.4	%
Woodson Hobbs (5)	1,000,000	3.8	%
Albert E. Sisto(6)	797,282	3.0	%
David L. Gibbs(7)	393,264	1.5	%
Scott C. Taylor (8)	148,608	*	
Ira Scharfglass(9)	36,314	*	
Kort van Bronkhorst(10)	938	*	
Curtis Francis		*	
Ramesh Kesanupalli		*	
Anthony Morris(11)	148,000	*	
Taher Elgamal(12)	130,000	*	
David Dury(13)	110,000	*	
Richard Noling(14)	55,000	*	
Dale Fuller(15)	40,000	*	
Anthony Sun (16)	208,600	*	
All current directors and executive officers as a group (17)	2,258,472	8.2	%

\* Ownership is less than 1%

(1) Based on 25,574,579 shares of Common Stock outstanding on January 8, 2007. In computing the number of shares beneficially owned by a person and the percentage ownership of that person, shares of Common Stock

subject to options that are exercisable within 60 days of January 8, 2007 are deemed to be outstanding. Such shares, however, are not deemed outstanding for the purpose of computing the percentage ownership of any other person.

(2) Based on information contained in a Schedule 13D/A filed on January 3, 2007 with the SEC by Starboard Value and Opportunity Master Fund Ltd. ( Starboard ) on behalf of itself and other reporting persons named therein. According to the Schedule 13D/A, as of December 29, 2006, (i) Starboard had beneficial ownership and voting and dispositive control of 2,774,471 shares of the Company's Common Stock, (ii) Parche, LLC had beneficial ownership and voting and dispositive control of 528,470 shares of Common Stock, and (iii) (A) Admiral Advisors, LLC, as the investment manager of Starboard and the managing member of Parche, (B) Ramius Capital Group, LLC ( Ramius ), as the sole member of Admiral Advisors, and (C) C4S & Co., LLC ( C4S ), as the managing member of Ramius, may each be deemed to have beneficial ownership and voting and dispositive control over the shares of Common Stock held by Starboard and Parche. In addition, Peter A. Cohen, Morgan B. Stark, Jeffrey M. Solomon and Thomas W. Strauss, as the managing members of C4S, may each be deemed to share beneficial ownership and voting and dispositive control of the shares of Common Stock held by Starboard and Parche. The persons and entities listed above have agreed to form a group with Mr. John Mutch, who beneficially owns and controls 200,000 shares of Common Stock, and certain other persons, for the purpose of soliciting proxies or written consents for the election of the persons nominated by Starboard to our Board at the Meeting.

(3) Based on information contained in a Form 4 filed on September 14, 2006 with the SEC by Austin W. Marx and David M. Greenhouse. According to the Form 4, Messrs. Marx and Greenhouse share voting and investment control over the Common Stock owned by Special Situations Fund III QP, L.P., Special Situations Cayman Fund, L.P., Special Situations Technology Fund, L.P. and Special Situations Technology II, L.P., respectively. The interest of Messrs. Marx and Greenhouse in these shares of Common Stock are limited to the extent of each of their pecuniary interest.

(4) Based on information contained in a Schedule 13G filed on January 30, 2006 with the SEC by Barclays Global Fund Advisors, LLC. According to the Schedule 13G, Barclays Global Investors, N.A. has sole voting power as to 1,220,083 of the shares and sole dispositive power as to 1,302,419 of the shares and Barclays Global Fund Advisors has sole voting and dispositive power as to 594,643 of the shares.

(5) Includes 900,000 shares as to which Mr. Hobbs has the right to acquire beneficial ownership within 60 days of January 8, 2007.

(6) Includes 754,782 shares as to which Mr. Sisto has the right to acquire beneficial ownership within 60 days of January 8, 2007.

(7) Includes 69,230 shares owned by Mr. Gibbs in his personal capacity, 4,000 shares owned by the Gibbs Trust and held jointly by David and Afina Gibbs, and 320,034 shares as to which Mr. Gibbs has the right to acquire beneficial ownership within 60 days of January 8, 2007.

(8) Includes 57,156 shares as to which Mr. Taylor has the right to acquire beneficial ownership within 60 days of January 8, 2007.

(9) Consists of 36,314 shares as to which Mr. Scharfglass has the right to acquire beneficial ownership within 60 days of January 8, 2007.

(10) Consists of 938 shares as to which Mr. Bronkhorst has the right to acquire beneficial ownership within 60 days of January 8, 2007.

(11) Consists of (i) 17,000 shares owned by Mr. Morris, (ii) 5,000 shares held in a custodial account by his spouse for his minor daughters, and 126,000 shares as to which Mr. Morris could acquire beneficial ownership at or within 60 days after January 8, 2007.

(12) Consists of 130,000 shares as to which Dr. Elgamil has the right to acquire beneficial ownership within 60 days of January 8, 2007.

- (13) Consists of 110,000 shares as to which Mr. Dury has the right to acquire beneficial ownership within 60 days of January 8, 2007.
- (14) Consists of 55,000 shares as to which Mr. Noling has the right to acquire beneficial ownership within 60 days of January 8, 2007.
- (15) Consists of 40,000 shares as to which Mr. Fuller has the right to acquire beneficial ownership within 60 days of January 8, 2007.
- (16) Includes 175,625 shares as to which Mr. Sun has the right to acquire beneficial ownership within 60 days of January 8, 2007
- (17) Includes (i) 344,657 shares and (ii) 1,913,815 shares underlying options exercisable within 60 days of January 8, 2007, held by the Company's current directors and executive officers. The holdings of Richard Arnold, the Company's newly appointed Chief Financial Officer and Executive Vice President, Strategy and Corporate Development, and Gaurav Banga, the Company's newly appointed Chief Technology Officer and Senior Vice President, are included in this calculation. In addition, the holdings of Dr. Elgamal and Messrs. Hobbs, Gibbs, Taylor, Morris, Dury, Noling, Fuller and Sun are also included.



**EXECUTIVE COMPENSATION**

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The following table sets forth information concerning the compensation of (i) the Chief Executive Officer of the Company and any individuals who served as the Chief Executive Officer of the Company during the Last Fiscal Year, (ii) the four other most highly compensated executive officers of the Company (based on salary plus bonus for the Last Fiscal Year) who were serving as such at the end of the Last Fiscal Year, and (iii) two additional executive officers of the Company who would have been included in the disclosure for subsection (ii) above, but for the fact that such individuals were no longer serving as executive officers of the Company as of the end of the Last Fiscal Year (together, the Named Executive Officers ).

### **Summary Compensation Table**

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Name and Principal Position	Annual Compensation					Long Term Compensation			
	Fiscal	Salary (\$)	Bonus (\$)	Other Annual Compensation (\$)	Restricted Stock Awards (\$)(2)	Securities Underlying Options (#)	All Other Compensation (\$)		
Woodson Hobbs <i>President and Chief Executive Officer(3)</i>	2006	30,423	157,500	(4)	445,000	(5)	900,000		
	2005								
	2004								
Albert E. Sisto <i>Former Chairman, President and Chief Executive Officer(6)</i>	2006	309,237	(7)	49,920			75,000	133,333	(8)
	2005	400,000		193,984			155,248		
	2004	400,000		80,000			50,000		
David L. Gibbs <i>Sr. Vice President &amp; General Manager, Worldwide Field Operations Division</i>	2006	270,000		68,340		(9)	10,000	4,950	(10)
	2005	260,000		89,763			151,128		
	2004	300,135	(11)	48,750			21,000		
Scott C. Taylor <i>Chief Administrative Officer, Sr. Vice President, General Counsel and Secretary</i>	2006	250,000		30,709		(12)	40,000	3,000	(10)
	2005	201,500		32,679				3,000	(10)
	2004	191,833		13,922			35,000	3,000	(10)
Ira Scharfglass <i>Former Sr. Vice President &amp; General Manager, Worldwide Engineering Operations Division(13)</i>	2006	287,951	(14)	15,581		(16)	27,000	3,000	(10)
	2005	269,093	(15)	24,433			35,000	3,000	(10)
	2004	231,825		15,098			18,000	3,000	(10)
Kort Van Bronkhorst <i>Former Sr. Vice President Corporate Marketing Division(17)</i>	2006	113,667		23,100	\$	102,400	(18)	115,000	
	2005								
	2004								
Curtis Francis <i>Former Sr. Vice President Corporate Strategy and Development Division(19)</i>	2006	214,156		8,840			10,000	78,833	(20)
	2005	260,000		89,958			50,356	3,000	(10)
	2004	260,000		39,000			21,000	3,000	(10)
Ramesh Kesanupalli									